



FAIR FINANCE ASIA

ASIAN FINANCIAL SECTOR MAPPING

Emerging Trends & Issues



DISCLAIMER

Fair Finance Asia, in partnership with CSR Asia, developed the paper 'Asian Financial Sector Mapping: Emerging trends and issues'. The paper endeavours to build an understanding on the Asian financial sector and the potentiality of sustainable finance in Asia. It is based on reports and research as outlined previously. Additional opinions expressed in this publication are based on the documents specified.

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Study commissioned by Fair Finance Asia and conducted by CSR Asia

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GLOSSARY

ADB	Asian Development Bank
ADBI	Asia Development Bank Institute
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asia Nations
AVPN	Asian Venture Philanthropy Network
BDO	Banco de Oro
BIS	Bank for International Settlements
BSP	Bangkok Sentral ng Pilipinas
CSO	Civil society organisation
ESG	Environmental, social, governance
FFA	Fair Finance Asia
FI	Financial institution
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GPIF	Japanese Government Pension Investment Fund
HSBC	The Hongkong and Shanghai Banking Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
IRIS	Impact Reporting and Investment Standards
LGBT	Lesbian, gay, bisexual, and transgender
MSI	Multi-stakeholder initiative
NBC	National Bank of Cambodia
OCBC	Oversea-Chinese Banking Corporation
OJK	Financial Services Authority/Otoritas Jasa Keuangan
PMU	Project management unit
SBN	Sustainable Banking Network
SBV	State Bank of Vietnam
SDGs	Sustainable Development Goals
SMEs	Small and medium enterprises
TCFD	Task Force on Climate-related Financial Disclosures
TLFF	The Tropical Landscapes Finance Facility
UN	United Nations
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNPRI	United Nations Principles for Responsible Investment
UOB	United Overseas Bank

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Objectives of this study

The findings from the regional mapping exercise provide an overview of the financial sector landscape in the region. The objectives are to:

- Strengthen understanding of the financial sector landscape in Asia, and the flow of cross border investments in Asia;
- Identify key regional financial sector stakeholders and entry points for engagement; and
- Develop recommendations to build the narrative on sustainable finance in Asia

Scope of this study

This study covers the whole of Asia with emphasis on the seven focus countries within the FFA Programme which includes Cambodia, India, Indonesia, Japan, Philippines, Thailand and Vietnam.

Methodology

The information in this report has been collected through desk research, review of relevant literature and available case studies from national partners.

Desk research and literature review

The following is a list of key studies referenced through the desktop research:

- “Driving ESG Investing In Asia – The Imperative for Growth” by Oliver Wyman and AVPN¹
- “Closing the Financing Gap in Asia Infrastructure – No. 54 of the Asian Development Bank (ADB) South Asia Working Paper Series” by ADB²
- “Infrastructure Financing Strategies for Sustainable Development in South-East Asia – Sub-Regional Study / Paper” – United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)³
- “Meeting Asia’s Infrastructure Needs” by Asian Development Bank⁴
- “Banking in Asia-Pacific: Size matters and digital drives competition” by Ernest and Young⁵
- “Sustainable Banking in ASEAN: addressing ASEAN’s forests, landscapes, climate, water, societies” – The World Wildlife Fund⁶

Information from FFA national partners

Information and findings from the FFA’s service providers and national partners’ baseline assessment, case studies, and research also supplemented this report, including:

- “FFA financial flow analysis – Presenting the money transferred from ‘host’ to ‘impact’ countries in the working area of the Fair Finance Asia project” by Profundo in April 2017⁷
- “Executive Summary of Fair Finance Guide Japan’s Case Study Report: Out of Sight: Japanese Supply Chains of Philippine Bananas” published by Fair Finance Guide Japan⁸
- “Assessment of responsible investment and finance policies of Thai Financial Institutions – draft” by Fair Finance Thailand⁹

Limitations

Findings of this paper focus on the overall trends of the financial landscape within Asia with emphasis to the trends and activities of the private sector. Whilst we are aware and understand the importance of policies and regulations, we have not included this information in the paper. Instead, policies and regulations will be assessed by country partners, specific to their own countries, in their FFA baseline assessments.

The background of the entire page is a solid teal color. It is decorated with a repeating pattern of white icons. The icons are dollar signs (\$) and recycling symbols (three arrows forming a triangle). These icons are scattered across the page, with some appearing larger than others, creating a textured, patterned effect.

LANDSCAPE OF THE
ASIAN FINANCIAL SECTOR

Asia is home to a diverse range of financial systems that vary in maturity and sophistication, including developed and emerging markets, as well as low-income economies¹⁰. Hong Kong and Singapore dominate the landscape as regional financial hubs and have been considered as developed markets for many years¹¹. Growing giants in the region include China and India, with a relatively small equity and bonds market and institutional investors relative to their gross domestic product (GDP). Emerging countries include Indonesia, Malaysia, Philippines and Thailand where economies are notably progressing.

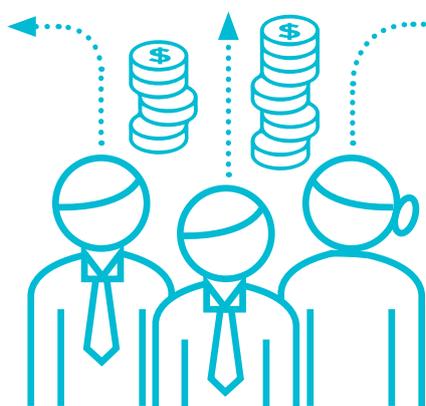
During the global financial crisis that took place between 2007 and 2009 many large foreign banks exited Asia, prompting regionally and nationally operated banks to take on newly-opened niches. The crisis increased cross-region activities for regionally and nationally operating banks. As this continues, these regionally and nationally operated banks have started out performing global banks as international players downsized and withdrew from the region. Particularly, Chinese, Japanese and banks from the Association of Southeast Asia Nations (ASEAN) are growing their presence in this region.¹²

Asia, at its current state, is at the forefront of the global economy. Despite having a smaller per capita income than European countries and the U.S., Asia is still accountable for most of the world's economic growth. The short-term prospects for growth in Asia are expected to remain positive, continuing its momentum.¹³

Challenges of the Asian financial Industry to operate sustainably

The Asian financial industry currently faces challenges that hinder its ability to operate in a sustainable and inclusive manner. The lack of a consistent and comprehensive approach to integrate environmental and social considerations into investments along with limited knowledge of ESG and how it correlates with financial returns, mean that more work needs to be done to standardise frameworks and develop effective regulations. In addition to this, the high “unbanked” population in Asia prevents a significant proportion of the region's population from accessing basic financial services.

Lack of common approach to sustainable finance



Financial institutions, international initiatives and regulatory bodies of different countries have developed their own approach to sustainable finance, making it difficult to compare and assess progress. A paper by the International Finance Corporation (IFC) in partnership with GIZ and German Cooperation concluded that whilst it is possible to roughly estimate sustainable financial flows, more work is needed to make sustainable finance more accountable and visible.¹⁴ The lack of consistency in terminologies used and standards for application not only make it difficult to track financial flows, it also makes it difficult to understand the efficacy of green financial products.¹⁵

Limited understanding of ESG

Asia's financial landscape has evolved rapidly over the last five years in terms of sustainable finance and ESG-integration and the region's appetite is expected to progress. All seven FFA participating countries have publicly announced some form of commitment and/or initiative for supporting ESG-integration into its financial system. India, Indonesia and Thailand have issued green bonds in 2018 (refer to FFA Country Profiles for details). Cambodia, Philippines and Vietnam have committed their support towards creating a more sustainable financial market either through a national level action plan and/or building the ESG capacity of the key players within its financial industry.



The Japanese Government Pension Investment Fund (GPIF), the world's largest pension fund, signed the United Nations (UN) Principles for Responsible Investment in 2015.¹⁶

Japan: Government Pension Fund signs up to UN Principles of Responsible Investment



The Japanese Government Pension Investment Fund has announced that it has become a signatory to the UN Principles for Responsible Investment. The Fund manages approximately USD 1.2 trillion.

© Business and Human Rights Resource Centre

In terms of the maturity of ESG integration¹⁷, the spectrum is wide in the region and amongst the national partners of the Programme. Japan currently operates the most advanced ESG-integrate market in Asia. Together with China, these two countries dominate the market in terms of total assets managed. The fastest growing market for sustainable investments in the region between 2014 and 2016 was in Japan.¹⁸ Since then, Singapore, Hong Kong, South Korea and Kuala Lumpur have emerged as key Asian financial centres in which sustainable assets are managed.¹⁹

In general, there is still a lack of awareness that environmental and social risks can pose a threat to the financial sustainability of projects or firms as well as entire industries. There is a shortage of professionals in the financial industry that have been trained in assessing environmental and social risks.

ESG risks along supply chains for investors



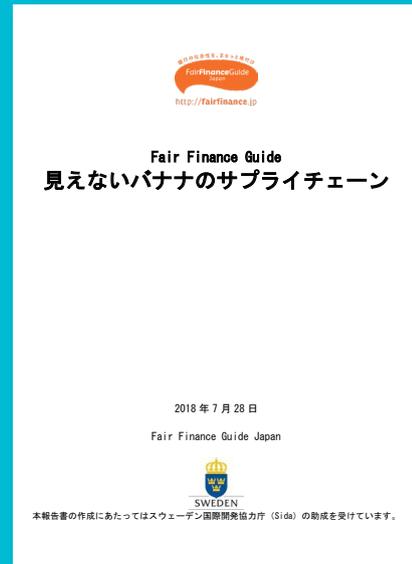
With the exception of private equity, there is limited information available on how FIs are involved in the ESG performance of companies they invest in. As supply chains fall outside of a company's core operations, it may be difficult to understand the hidden and uncontrollable risks related to ESG. Common supply chain issues include human rights abuse, natural resource depletion and corruption. When left unmanaged and violations of these issues are exposed, company's reputation and financial performance, as well as investors' own reputation and investment performance can be at stake.

In Asia's context, supply chain risks are most common in the agriculture and manufacturing sectors. Specific to the agricultural industry, degradation of natural resources and deforestation are the most common environmental risks, while gender inequality and labour standards are the main human rights concerns. As for manufacturing, environmental risks include accidental release of pollutants into the natural environment, while human rights issues remain similar to the agricultural industry.

An area particularly worth highlighting is human rights violation deep down into supply chains which are often found in agriculture, fishing, mining and other primary industries where single companies have limited control over their suppliers. Abuses in child labour, forced labour, bonded labour and a range of abuses inflicted on vulnerable and marginalised groups that can collectively be considered as modern-day slavery.

The role of banks with respect to human rights has not been clearly defined, however, FIs have made progress in the last decade in defining what steps they should take in respecting human rights through their experience of due diligence. This topic is now seen as a dimension of risk when addressing ESG. With the absence of national level human rights laws in most countries in Asia, the incentive for financial institutions to address human rights centers around protecting itself from reputational risks which could result in the loss of customers.

In 2018, Fair Finance Guide Japan completed a case study on the country's supply chain of bananas, "Out of Sight: Japanese Supply Chains of Philippine Bananas"²⁰ to investigate the sustainability of the banana supply chain. Results reveal that most bananas were sold at supermarkets and despite these supermarkets' having a sustainable supply chain policy, evidence still suggests Filipino banana farmers are not treated fairly. Whilst importance of ESG has been established in the Japanese market, the results from the case study reveal there's a need for further investigate the sustainability of companies' supply chains that Japanese banks are investing in.



Financial exclusion

More than 1 billion people in Asia still lack formal access to basic financial services.²¹ Fostering financial inclusion in Asia is a complex challenge due to the diversity of the region. Nonetheless, achieving financial inclusion is important to the sustainable development of Asia as it would contribute greatly to economic growth by reducing poverty and inequality. Much work is needed in Asia to achieve financial inclusion, nearly half of the adult population in low- and middle-income Asia-Pacific economies does not have a bank account, and less than 10 percent has borrowed from formal financial institutions.²² Income disparity is directly correlated with financial exclusion with the poorer population being financially excluded compared to those that are rich. In Indonesia, only about 10 percent of adults from the poorest quintile have a formal bank account, compared with 60 percent from the richest quintile.²³ The situation in India is similar in that only about 46 percent of male adults from the poorest quintile have a formal account, compared with 79 percent from the richest quintile.²⁴ Other factors such as banking structure, geography and national policy are also determinants of financial inclusion.²⁵



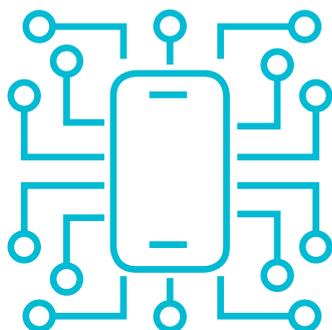
One major challenge for achieving financial inclusion is that banks are hesitant to serve vulnerable groups due to their lack of credit history, geographic challenges and lack of valid identification. Hence, in countries where rising population and income inequality are still concerns particularly in China, India, and Indonesia, better access to financial services can be challenging.²⁶



**EMERGING TRENDS,
CHALLENGES AND
OPPORTUNITIES**

Despite the challenges the region faces, technological advancements and changing expectations of the public towards sustainable development pose opportunities for the financial industry and businesses to operate more sustainably.

Digitalisation



Digitalisation of the financial sector could lead to financial inclusion, higher transparency and efficiency; it can potentially serve as a driver of productivity growth and welfare in the long run. Digitalisation can improve data transparency within the financial sector and along supply chains.

Asia is at the forefront of digitalisation, it has the highest dispersion of economies in terms of adopting digital technologies, particularly fintech.²⁷ The widespread use of mobile phones has allowed fintech to flourish, providing basic financial services to small and medium enterprises and individuals in poor Asian economies such as micro-loans and cross-border payments at a much lower administrative cost than traditional financial institutions.²⁸ Financial inclusion can create sizable economic growth, especially for emerging markets, which creates a unique opportunity for the financial sector, particularly fintech companies to make a positive difference while generating revenue. Globally, potential bank revenue could reach as high as US\$200 billion through increased servicing of financially excluded consumers and micro, small and medium enterprises in 60 emerging countries.²⁹ China, Thailand and Vietnam are considered to be within the top ten countries to have the greatest potential revenue at US\$63.4 billion, US\$8.5 billion and US\$5 billion respectively.³⁰ There is a strong business case for FIs to develop and invest in their operating systems to encourage mobile transactions, electronic payments and currency digitalisation to foster financial inclusion.

Cryptocurrencies that uses blockchain technology³¹ to facilitate monetary transactions in a decentralised system has become particularly popular in China. Before regulations were enforced, more than 90 percent of Bitcoin³² trading volumes were against the renminbi.³³ Whilst some believe that when used correctly, blockchain technology can help ethical investors by showing the flow of capital and therefore the actual use of capital, for products such as green bonds.³⁴ Conversely, some argue it poses risks related to money laundering, tax evasion and circumvention of capital control.³⁵

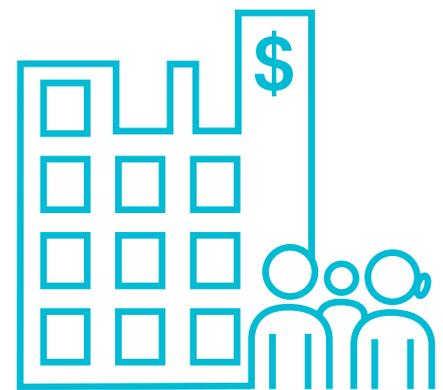
In recent years, blockchain technology has also been used to improve supply chain traceability which could reduce ESG-related risks by offering transparency to the environmental and social conditions along supply chains. Blockchain offers instantaneous and reliable recording of information throughout the supply chain.

Users of the blockchain can access and share information with simple technology such as a mobile phone.³⁶ It is already being used in the diamond industry to track the journey of diamonds starting from the mining site so that jewelers and consumers can identify any conflict diamonds, also known as “blood diamonds.”^{37,38}

The strong financial growth in Asia and need for stringent regulation control has brought Regtech companies into the landscape. Regtech (regulatory technology) is defined as the use of technologies to address regulatory challenges in financial services. It streamlines compliance, risk management, reporting and data management.³⁹ Regtech is still relevantly new to the industry but similar to other forms of digitalization, Regtech will improve efficiency of the financial sector.

Rise of sustainable finance

Over the last decade, the public’s concerns on the sustainable development of our future have started to influence investors’ behavior. The launch of UN Sustainable Development Goals (SDGs) in 2015 has contributed significantly to raising the public’s awareness and concerns on the impacts of climate change and the need for sustainable development. There is a growing demand from individual investors for sustainable investment products and as a result, financial institutions have started working towards meeting such demands by offering ESG-integrated financial products. Within the last decade, we have seen massive growth in issuance of green bonds and other investment approaches that integrate ESG considerations. At the same time, stock exchanges are beginning to mandate listed companies to report of their ESG performance.



ESG disclosure

China, India, Hong Kong, Malaysia, Singapore and Taiwan stock exchanges have made ESG reporting a listing requirement for companies. By combining financial reporting with ESG reporting, investors will have a comprehensive view of companies’ financial prospects with consideration on how ESG risks are managed. Although reporting guidelines are not relatively lax at the moment, in that companies have the option to “comply or explain,⁴⁰” for some indicators and listing requirements do not monitor performance of these indicators overtime, it is a critical first step for companies to start tracking their environmental and social footprint.



Green Bonds



Green bonds are designated bonds specifically used to finance projects aimed at energy efficiency, pollution prevention, sustainable agriculture, fisheries and forestry, protection of ecosystems, clean and environmentally friendly technologies. It is one of the pioneer green financial products available. Green bonds offer tax incentives, such as tax exemption and tax credit, making them more attractive than a traditional bond. Green bonds offer monetary incentive for buyers to invest their money in something that provide environmental benefits.

China is currently the largest player of the green bond market in Asia with more than 75 per cent of the region's share of green bonds. China's green bond issuance reached US\$37.1 billion in 2017, making up 15 per cent of the global bond issuance, the world's second largest green bond market.⁴¹

As for other parts of Asia, the launch of the ASEAN Green Bond Standards will help ASEAN countries implement their commitments under the Paris Agreement, the SDGs, and push for a standardised set of rules for green bonds across ASEAN member countries. This standard is intended to enhance the transparency for issuers, reduce due diligence costs and help investors make informed decisions. It provides guidance to market participants on the use and management of proceeds, processes for project evaluation and selection, and reporting.⁴² In Southeast Asia, issuance of green bonds is predicted to reach US\$5 billion, more than double from 2017.⁴³ The uprising trend of green bonds in Asia reveals the region's appetite for green financial products.

There are concerns of greenwashing that still needs to be addressed. Green bonds are being marketed to solely fund for projects that contribute to sustainable development, but there is no monitoring and assessment measures in place to confirm that these funds are not being used in projects that are damaging the environment.

ESG Investing

ESG investing is a term that is often used synonymously with sustainable investing, socially responsible investing, mission-related investing, or screening. ESG investing is an investment approach that holistically takes into consideration of the environmental, social and governance factors into the investment analysis and decision-making process. This approach is divided into strategies differing in scope. The Global Sustainable Investment Alliance has categorized them as the following⁴⁴:



Negative/exclusionary screening: Exclusion of certain sectors, companies or practices based on specific ESG criteria.



Positive/best-in-class screening: Selection of investments based on positive ESG performance relative to industry peers.



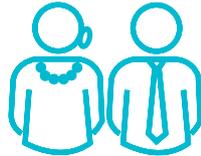
Norms-based screening: Screening of investments against generally accepted minimum standards of business principles and practices.



ESG integration: Systematic inclusion of ESG factors into financial analysis



Sustainability themed investing: Investment in themes such as water, clean energy or sustainable agriculture.



Corporate engagement and shareholder action: Private markets investment aimed at solving specific social or environmental problems.



Impact/community investing: Influencing company behavior about ESG practices and policies through direct corporate engagement, and proxy voting among others.

Whilst the adaption of ESG investing is growing, Asia (excluding Japan) still falls behind globally. Asia (excluding Japan) has the lowest ratio of ESG investment to its total managed assets compared to other parts of the world. However, there is overall growth in the amount of asset that is being put towards ESG investing in Asia in recent years. Between 2012 and 2016, there has been a 16 per cent growth in total ESG investing asset in Asia (excluding Japan).⁴⁵

At its current state, Asian investors' limited knowledge on ESG investing has led to the misconception that ESG hinders financial performance. When in fact, better ESG performance actually offers resilience at times of uncertainty.⁴⁶ Investments with high ESG performance indicate that environmental and social risks have been taken into consideration and are often mitigated. However, ESG considerations are broad, ever-changing and differ by industry, making it difficult for investors to assess financial risks and returns systematically. In some cases, investors lack the tools and man power to standardise the approach to measure ESG factors.

Impact investing

Impact investing, defined as, “investing in companies, organisation and funds with the intention to generate social, environmental impact alongside a financial return,” has developed significantly in the last decade with varying maturity amongst different countries in Asia. The social and economic challenges in Asia, particularly in Southeast Asia, present investors with unique opportunities to develop investment tools that generate financial return while creating positive impact. Indonesia, Philippines and Vietnam have a comparatively mature impact investing market, making them attractive to private impact investors⁴⁷.

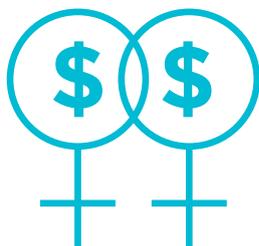


Another country of significance, Cambodia has attracted a large number of investors because of its relatively open economy alongside with its use of the U.S. dollar. These two factors have attracted nearly as much private impact investor capital in Cambodia as Indonesia, Philippines and Vietnam combined.

Most impact investing capital in Asia is put towards sectors/companies that promote financial inclusion, expand access to basic services and create livelihood to the public with financial services sector receiving the most impact capital. This includes microfinancing institution, as well as insurance and commercial banking for small and medium-sized enterprise (SMEs).⁴⁸

Investors currently use customised methods to monitor and measure the impacts of investments, so that consideration for the different context of each country can be taken. The most commonly used framework being used is the Impact Reporting and Investment Standards (IRIS). As impact investing becomes increasingly common, there is a need to improve and standardise monitoring mechanisms to measure the impacts of each project.

Gender lens investing



Increasing emphasis to achieve gender equality has created interest in a niche impact investing approach, gender lens investing. These are investments made into companies, organisations and funds with the intention to create a positive impact on gender.⁴⁹ Broader awareness of the concept remains limited and the definition of gender lens investing varies. Some investors understand gender lens to mean investing in women owned or women-led enterprises. Whilst other strategies that exist include investing in enterprises that provide goods or services directed primarily at improving the lives of women, girls, and the lesbian, gay, bisexual, and transgender (LGBT) community, or investing in enterprises that promote workplace gender-equity.

According to the Global Impact Investing Network (GIIN), approximately 90 percent of capital invested using a gender lens has been put towards microfinance institutions and investments that promote women's financial inclusion as these microfinance institutions are serving mostly female customers. The reminding 10 percent has been put towards agricultural, healthcare and service sectors.⁵⁰ Impact investors have made more than 30 deals in Indonesia, Philippines, and Vietnam using a gender lens, amounting to US\$40 million of capital deployed since 2007.⁵¹

Aside from an impact investing approach, in recent years we see more financial services and products that promote gender empowerment.

The first gender bond was issued in 2017 by the ADB and was purchased in its entirety by Dai-ichi Insurance Company of Japan. Funds are used to finance projects that promote gender equality and women's empowerment in Asia and the Pacific.⁵²

In 2017, Japan's Sasakawa Peace Foundation launched Asia's first impact investment fund with specific focus on women empowerment. The US\$100 million fund will be invested in projects and institutions that support women's empowerment and promote gender equality across Asia.⁵³

Bangladesh, India, Japan, Nepal, Pakistan and South Korea are furthest from gender parity in the workplace, while Philippines stands out for its progress.

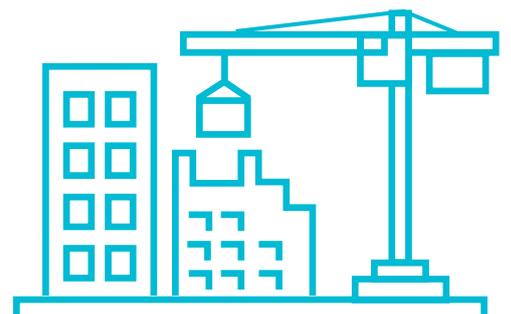


There is much work to be done for gender equality to be achieved in Asia. In a study by McKinsey published in 2018,⁵⁴ it is estimated that there is only one woman for every four men in leadership roles. There is scientific support on the economic benefits of achieving gender equality. It is estimated that by advancing women's equality, as outlined in McKinsey's study, the economies of Asia Pacific could boost its collective GDP by \$4.5 trillion a year by 2025, a 12 per cent increase over business-as-usual GDP. Companies with greater gender equality are more innovative, generous and profitable.⁵⁵

There is an obvious case for investors and companies to apply a gender lens approach in Asia. The combination of the GDP gain by achieving gender equality, the need to achieve gender equality for the sustainable development of the region and the increasing availability of research and data on this investment approach offers vast opportunities for investors and companies.

Infrastructure and development finance

As development continues at a rapid pace in Asia, the availability of basic services (i.e. transportation, energy and water supply, communication networks, etc.) offered by major infrastructures will determine societal and economic growth for the coming decade.



Asia (excluding Japan) faces an “infrastructure gap” between demand and supply of the transport, energy and communications networks needed to keep the world’s fastest-growing region on track.⁵⁶ The ADB has estimated that developing countries in Asia and the Pacific will need to invest US\$26 trillion in infrastructure between 2016 and 2030, or US\$1.7 trillion per year.⁵⁷ This is the projected amount of money needed for Asia to maintain its growth momentum, eradicate poverty, and respond to climate change. It includes infrastructure related to transport, power, telecommunications, water supply and sanitation, and other urban infrastructure. As of mid-2017, developing economies in Asia and the Pacific region only invest an estimated US\$881 billion in infrastructure annually.⁵⁸ Based on this, Asia and the Pacific region would still need approximately US\$819 billion more every year⁵⁹ to have sufficient investments to fund these projects.

Despite this, opportunities exist for these emerging economies to invest their savings to fund infrastructure developments, especially given the high proportion of savings in Asia. This is especially true for China, where the culture highly encourages saving. As a way to resolve the funding gap, domestic institutional investors could channel these savings into the demanded needs through financial markets. However, the immaturity of Asia’s financial markets (excluding Japan) creates challenges to direct its savings to fund infrastructure development.

The perceived risks and low returns, as well as immaturity of the financial market in Asia (particularly in emerging markets), has made these investments unattractive to institutional and individual investors, steering them to invest in development projects in more mature markets elsewhere, such as Europe and Americas.⁶⁰ There is a large outflow of capital leaving Asia, at the end of 2016, Asia invested \$6.2 trillion in the rest of the world, while the rest of the world invested \$4.4 trillion in Asia.⁶¹ A potential solution to redirect these financial flows is to establish a system that addresses investors’ concerns in regard to perceived risks and low returns. In their paper, the ADB suggests that more information needs to be available to the public and investors about the potential environmental, social risks, and actual demand of these infrastructure projects, this could in turn, direct financial flows back to Asia. Currently, the lack of transparency on this information hinders investors’ ability to analyse and compare risk-return profiles of projects.

Portfolio investment assets position from asia to the world and vice versa

	Portfolio investment asset positions from asia to the rest of world (\$ billion)	Portfolio investment asset positions in asia from the rest of the world (\$ billion)
Developing Asia*	489.9	1,700
Developing Asia including Hong Kong, China; The Republic of Korea; Macau, China; Singapore; and Taipei, China	2,437	2,384
Developing Asia including Hong Kong, China; Japan; The Republic of Korea; Macau, China; Singapore; and Taipei, China	6,237	4,354

*Selected countries of Developing Asia include Bangladesh, Bhutan, Brunei Darussalam, Cambodia, The People’s Republic of China, Fiji, India, Indonesia, Kiribati, The Lao PDR, Malaysia, Maldives, The Marshall Islands, The Federated States of Micronesia, Mongolia, Nepal, Palau, Papua New Guinea, The Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, and Vietnam.

Source: International Monetary Fund. 2016. Coordinated Portfolio Investment Survey. <http://data.imf.org/CPIIS> (accessed October 2017, Authors’ estimates).

Image source: Closing the Financing Gap in Asian Infrastructure – ADB South Asia Working Paper Series No. 57

China, on the other hand, has deployed its own method to solve its funding gap for large-scale infrastructure. It has developed a state-dominated model to finance some of the world's largest infrastructure and has become a major funder of developing country infrastructure, lending \$40 billion annually for such developments, including the Belt and Road Initiative. China established the Asian Infrastructure Investment Bank (AIIB) which has significantly closed the funding gap regionally by supporting the infrastructure funding in Asia-Pacific.⁶² The AIIB has approved financing for US\$3.5 billion worth of infrastructure globally as of 2017.⁶³

The IFC, a member of the World Bank Group, is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in developing countries.

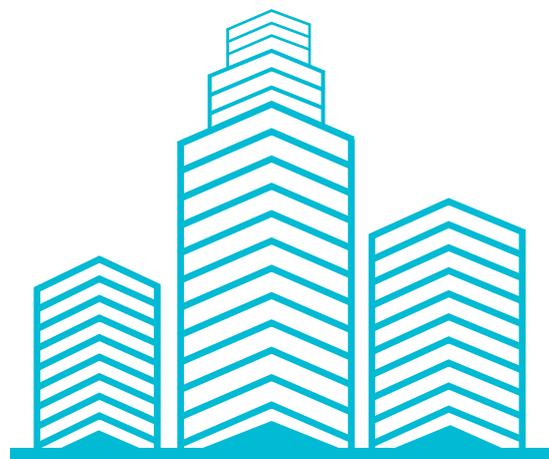
At the end of 2018, it announced its new targets for 2021-2025 where they will be doubling their current five-year investments to approximately US\$200 billion to support countries to take actions for climate change adaptation. The sheds hope to resolve the funding gap by providing an attractive market for the private sector.

Another reason for the infrastructure funding gap in Asia is the lack of investment-ready projects, posing a major constraint in attracting private investments. To make these investments more attractive and investment-ready, the ADB suggests making projects “bankable” as one of the solution. This means, project preparation and investment feasibility assessments need to be conducted at an early stage, including environmental and social impact assessments. When conducted properly, results from these assessments not only offer transparency on investment risks related to environmental and social aspects but also offer the mitigation measures necessary to prevent such risks. This information supports investors to properly evaluate the risks and returns of projects.

Key financial actors and stakeholders

Public FIs, including central banks, development banks and public pension funds, play a key role in developing and promoting the adoption of new green financial products and services. Similarly, private sector FIs and investors have the ability to influence the market by demanding such products and services. In this section, we provide a non-exhaustive list of key actions and stakeholders of the FFA Programme based on their role in the region, along with their significance of footprint in the region.

China and Japan currently dominate the financial market in Asia in terms of banks with total managed assets. Banks from these two countries alone occupy the top 20 positions for the largest banks in Asia in terms of total assets.



Top Ten Financial Institutions in Asia

RANKING	COMPANY	COUNTRY
1	Industrial & Commercial Bank of China (ICBC)	China
2	China Construction Bank	China
3	Mitsubishi UFJ Financial Group (MUFG)	Japan
4	Agricultural Bank of China	China
5	Bank of China	China
6	Japan Post Bank	Japan
7	Mizuho Financial Group	Japan
8	China Development Bank	China
9	Sumitomo Mitsui Financial Group	Japan
10	Postal Savings Bank of China	China

Note: This is in reference to the total amount of assets managed

Table source: Relbanks; accessed at: <https://www.relbanks.com/rankings/top-banks-in-asia>

If we look beyond these two countries and shift focus onto ASEAN and developing countries, Singaporean banks dominate the market. In recent years, ASEAN banks have grown their assets rapidly and some of which are on their way to becoming some of the world's biggest banks. Top ASEAN players include DBS Bank, Oversea-Chinese Banking Corporation (OCBC) Bank Singapore, United Overseas Bank (UOB). In ASEAN, where the FFA Programme is operating at a national level (Cambodia, Indonesia, Philippines, Thailand, and Vietnam), Singaporean, Malaysian and Thai FIs are dominant. This is then followed by Indonesia, Philippines and Vietnam. Assuming that the size of managed asset is proportional to its level of influence is has in the market, this information offers a general overview of who the key players could be as the Programme identifies important FIs to engage and influence.

Top Twenty Financial Institutions in ASEAN

RANKING	COMPANY	COUNTRY
1	DBS Bank	Singapore
2	OCBC Bank	Singapore
3	UOB Bank	Singapore
4	Maybank	Malaysia
5	CIMB Bank	Malaysia
6	Public Bank Berhad	Malaysia
7	Bangkok Bank	Thailand
8	Siam Commercial Bank	Thailand
9	Kasikornbank	Thailand
10	Krung Thai Bank	Thailand
11	Bank Mandiri	Indonesia
12	Bank Rakyat Indonesia	Indonesia
13	RHB Bank	Malaysia
14	Bank Central Asia	Indonesia
15	Bank for Investment and Development of Vietnam	Vietnam
16	Banco de Oro (BDO)Unibank	Philippines
17	Bank Negara Indonesia	Indonesia
18	Vietinbank	Vietnam
19	Vietcombank	Vietnam
20	Metropolitan Bank and Trust Company	Philippines

Based on our findings from the research, we have preliminarily identified the following FIs, associations and other organizations as key players.

Finance-related associations/groups:

- ASEAN Bankers Association
- Asian Development Bank (ADB)
- Asian Bankers Associations
- Asian Infrastructure Investment Bank (AIIB)
- Asian Investor Group on Climate Change
- Asia Venture Philanthropy Network (AVPN)
- Global Impact Investing Network (GIIN)
- Indian Banking Association
- International Finance Centre (IFC)
- International Organisation of Securities Commissions
- Ministry of Finance - Vietnam
- Sustainable Banking Network (SBN)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Thai Bankers Association
- UN Principles for Responsible Investment (UNPRI)
- The World Bank

FIs to engage with:

- Banco de Oro (BDO)
- BangkoSentralngPilipinas (BSP)
- Bank of the Philippine Islands
- China Construction Bank
- DBS Bank
- ICBC
- Mitsubishi UFJ Financial Group (MUFG)⁶⁴
- National Bank of Cambodia (NBC)
- Overseas-Chinese Banking Corporation (OCBC) Bank
- Rizal Commercial Banking Corporation
- State Bank of Vietnam
- TMB Bank
- Union Bank



**COUNTRY PROFILES OF
FFA IMPLEMENTING COUNTRIES**

The status of FFA country partners and their cross-region activities available through our research is presented in the following section. This includes Cambodia, India, Indonesia, Japan, Philippines, Thailand and Vietnam. This section will be supplemented by national partners based on their local knowledge.

A number of organisations from FFA country partners are currently involvement in regional-level association relevant to the context of the FFA, such as, G20 and SBN. The G20 is an international forum for governments and central bank governors from 20 countries to discuss policies pertaining to the promotion of international financial stability. Asian G20 members include China, Indonesia, Japan, Republic of Korea, Saudi Arabia. India, Indonesia and Japan are the only countries of the FFA Programme that are members of G20.

Secondly, the SBN is a knowledge sharing platform for banking regulators and banking associations. It supports the development of environmental and social risk management by financial institutions and promotes green and inclusive lending. Of the countries that are part of the FFA Programme the following countries and their associated organisations are members of the SBN.

Members of the Sustainable Banking Network from FFA Country Partners	
Country	Organisation
India	Indian Banks Association
Indonesia	Financial Services Authority/OtoritasJasaKeuangan (OJK)
Philippines	BangkoSentralngPilipinas (BSP)
Thailand	Thai Bankers Association
Vietnam	State Bank of Vietnam; Vietnam Ministry of Natural Resources and Environment



CAMBODIA

Cambodia is currently one of the least banked markets in Asia, yet at the same time, Cambodia's economy is experiencing rapid growth. As the central bank, the NBC regulates the operations of banking systems in the country. With its developing economy, the financial market currently does not have many restrictions on infiltration of foreign banks. Foreign banks and branches can register and operate freely in the country. Despite having its own national currency, the U.S. currency is used widely and preferred over its national currency in most cases.

Association of Banks in Cambodia and the IFC kicked off the Cambodian Sustainable Finance initiative in June 2018 to introduce the development of the Cambodian Sustainable Finance Principles involving Cambodian banks. The principles are said to take into consideration environmental protection, preservation of our unique culture, our way of life, history and values, and orchestrate it in harmony with sustainable livelihoods and education, health and the lifestyle of Cambodians.



INDIA

India, the second most populated country in the world, is also one of the largest economies in Asia. The country exhibits strong growth in both its existing financial system as well as incoming entities.⁶⁵ In particular, mutual funds and insurance are seeing rapid growth in recent years. Financial institutions operating in the country have also seen high numbers of mergers and acquisitions recently.

As of 2018, India ranks eighth in the world for climate aligned bond issuance. Between 2015 and March 2018, the total green bond issuance stands at US\$6.5 billion.⁶⁶ Analysts anticipate continuous growth in India's green bond market with demand for transportation, building and agriculture sector needs.⁶⁷

FFA national partner, Oxfam India's trans-border investment study highlights the significance in India's economy and its connections with other countries in the region. In the past ten years, India's trade with Cambodia, Myanmar, Laos and Vietnam has increased significantly, indicating a potential surge in financial flows from Indian financial institutions to Southeast Asian countries. ASEAN is now India's fourth largest trading partner.



INDONESIA

Indonesia is positioned as the fifth largest economy and fourth most populated country in Asia.⁶⁸ It is one of the fastest growing economies in the world with the banking sector dominated by its four state-owned banks.⁶⁹ To improve the governance of the financial section, the OJK was established in 2013 to regulate and supervise the financial service sector. It operates autonomously without interference of other departments. In 2015, the OJK and the Ministry of Environment and Forestry launched Indonesia's Sustainable Finance Roadmap. This roadmap serves as a reference for OJK, practitioners in financial services industry, government and international institutions with short term and long-term recommendations to foster sustainable finance in Indonesia. The country aims to increase the supply of sustainable financing, increase the demand of sustainable financial products and to improve oversight and coordination of implementing sustainable finance.⁷⁰

In 2018, Indonesia became the first sovereign green bond issuers in Asia, raising US\$1.25 billion in a five-year offering. The bond is designated to renewable energy projects, green tourism and waste management.⁷¹ In addition to being green, the bond is also an Islamic Bond which means it complies with Sharia — Islamic religious law. Compared to other green bonds that have been issued in Asia, this government-issued bond is the first of its kind in Asia as other green bonds in the region are issued by corporate entities.

Around the same time in early 2018, the first Corporate Sustainability Bond in Asia was also issued by The Tropical Landscapes Finance Facility (TLFF)⁷². This US\$95 million bond will finance a sustainable rubber plantation on heavily degraded land in Indonesia operated by PT Royal Lestari Utama. The company is a joint venture between France's Michelin

and Indonesia's Barito Pacific Group. The project is expected to conserve 450 square kilometers of the total 880 square kilometers for community livelihoods and nature conservation.

Despite their claims of being "green", there are concerns on whether the projects funded by these bonds could include elements of deforestation. The current lack of green or sustainable requirements for green bonds make it difficult for the public to know whether these funds are being used in a way they have been marketed. These concerns pertain to not only Indonesia, but also to other green bonds issued from other parts of the world. With the exemption of insurance firms, hardly any institutional investors in Indonesia integrate ESG factors into their decision-making processes, and very few professionals in the industry have been trained to understand ESG issues.⁷³



JAPAN

Japan is one of few developed markets in Asia but is experiencing economic slowdown in recent years. To find growth outside of their domestic market, Japanese institutions have been building their regional presence via local branches and subsidiaries, and investments in other FIs including acquisitions.⁷⁴ By teaming up with FIs in Southeast Asia, Japanese banks are taking advantage of the growing economy in other parts of Asia, a player in this is MUFG, the third largest FI in Asia. MUFG has expanded its presence in other parts of Asia with plans to purchase major local banks in Indonesia.⁷⁵ It is also growing its footprint in Thailand by partnering with Krungsri. This partnership offers a platform for Thai corporations to expand their businesses overseas. Currently, MUFG has a 19.7 per cent stake in VietinBank in Vietnam, 76.88 per cent in Krungsri, and 20 per cent in Security Bank in the Philippines, and recently acquired 40 per cent of Bank Danamon in Indonesia.⁷⁶

In terms of integrating ESG into the financial system, Japan has made significant strides in expanding its ESG investing efforts and is a frontrunner in Asia. In 2015, the Tokyo Stock Exchange issued the Japanese Corporate Governance Code for listed companies. In that same year, the GPIF, the world's largest pension fund, signed the UNPRI. These milestones highlighted the value of ESG within its financial system.



PHILIPPINES

The Philippines' banking system is dominated by domestic universal banks, owning 80 per cent of market share in terms of total assets. Universal banks are banks that provide a wide variety of financial services, including commercial and investment services.⁷⁷ A new regulatory body, the Financial Stability Coordination Council, was established to improve supervision of the Philippines' financial system and address systemic risks such as shadow banking (lending and other financial activities done by unregulated institutions) and risks from the interconnectedness of financial institutions.

In terms of ESG integration, the country's central bank, BSP, and IFC are currently engaging with local banks to integrate ESG policies and to increase financing climate-friendly and socially inclusive projects. As a member of the SBN, BSP is committed to promoting ESG and corporate governance and offers capacity building to banks when needed.



THAILAND

Fourteen domestic banks dominate 88 per cent of the Thai financial market. In a recent baseline assessment done by the FFA national partner, Sal Forest, the top five Thai banks with the highest amount of managed assets (in the order or highest to lowest) are Bangkok Bank, Siam Commercial Bank, Krung Thai Bank, Kasikornbank and Bank of Ayudhya. When rated across 12 ESG, human rights and governance-related indicators, Kasikornbank had the highest rated score amongst its peers, while TMB Bank scored the lowest. For all banks labour rights, human rights, nature, gender equality were relevantly lower compared to scores in other areas. In particular, indicators related to governance and financial inclusion had relatively higher score compared to other indicators.

Thailand's TMB Bank launched their first green bond in 2018 with the IFC as the sole investor of this bond. The funds are intended to support private sector investments for projects that address climate change, in particular, renewable energy. It will also help Thailand achieve its target of reducing greenhouse gas emissions by 20 per cent by 2030 relative to its business as usual scenario.⁷⁸ TMB Bank used this opportunity to announce its commitment to sustainability, outlining that it is that environmental sustainability as one of the pillars of their sustainable banking framework.

Another area worthy of highlighting that is unique to Thailand is the country's development on its own digital currency. In August 2018, the country's central bank, Bank of Thailand, announced the launch of its Central Bank Digital Currency project, named Inthanon. Bangkok Bank, Krung Thai Bank, Bank of Ayudhya, Kasikorn Bank, Siam Commercial Bank, Thanachart Bank, Standard Chartered Bank (Thailand) and Hong Kong, and the Hongkong and Shanghai Banking Corporation (HSBC) were involved in developing this digital currency. At its early stage, it will be used for interbank transfers.⁷⁹

Separately, the Thai Securities and Exchange Commission announced the legal status of seven cryptocurrencies, bitcoin, ethereum, bitcoin cash, ethereum classic, litecoin, ripple, and stellar.⁸⁰ Together with the development of a digital currency, Thailand's financial industry highly supports technology advances.



VIETNAM

The Vietnamese financial market has grown rapidly in recent years and has gained strategic importance at the global level. With its liberalisation, privatisation and globalisation of the market, Vietnam has become a popular choice for foreign investors.⁸¹ As Vietnam's banking sector is still emerging, the country views this as an opportunity to promote its sustainable finance agenda through developing practical guidance and encouraging local banks to learn from international good practices with regard to ESG.⁸²

Vietnam's sustainable banking journey began in 2015 when the Directive on Promoting Green Credit Growth and Environmental and Social Risks Management in Credit Granting Activities was issued by the State Bank of Vietnam (SBV).⁸³ It requires financial institutions to assess the ESG risk of clients receiving loans, but does not yet specify the process of how this should be done and there is no requirement to incorporate them into legal documents. The Directive indicates that credit institutions are required to “conduct frequent and periodic monitoring and supervision of E&S risks management of clients receiving loans.” However, this requirement is not detailed at the project level.

In August 2018, Vietnam issued the Development Strategy of Vietnam's Banking Sector. It aims to increase independence and accountability of its central bank, the SBV, to ensure effective management of policies, inflation control, and to support for economic stability. The strategy also emphasises the need for increasing the transparency of local banks and ensuring that the sector operates in accordance with international standards.⁸⁴

RECOMMENDATIONS AND WAY FORWARD

Asia's growing economy, technological advancement and the demand for more sustainable financial products and services create an ideal environment for building an enabling policy environment for sustainable finance in Asia.

Findings from this study revealed the pressing need to increase the capacity of key actors and stakeholders of the financial sector on the importance of ESG as well as the approach to integrate ESG into investment decisions. With clear understanding of the business case of positive financial outcome resulting from ESG integration, it becomes imperative for investors to holistically consider ESG in their decision-making process.

The population of the unbanked, the infrastructure funding gap and the increasing availability of digitalisation in Asia present business opportunities for financial institutions to generate profitable returns while providing social good. Collectively, this supports the region towards achieving the SDGs. The linkage between ESG and financial returns, especially ESG risks deep within supply chains, are often unclear. Improving our own capacities and that of all stakeholders will be instrumental in enabling ESG criteria being taken into consideration in the core investment decisions and business activities of financial institutions.

Fostering dialogue and building a common understanding on sustainable finance among key financial actors and all stakeholders at the national and regional level is critical towards reducing the negative impacts of investments of regionally operating banks and insurers in Asia on human rights, environment and climate change, and on increasing their investments in inclusive economic development. Fortunately, our research has demonstrated that the region's increasing interest in sustainable finance and technological advancement in digitalisation brings hope to achieving these objectives. At the current state, we are seeing countries within Asia taking actions to towards a sustainable financial sector. Moving forward, there is a need for data-driven research, sustained dialogue and concerted efforts among countries at a regional level.

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FAIR FINANCE ASIA

Fair Finance Asia is a regional network of Asian civil society organizations that is 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.

CSR ASIA

CSR Asia was created in 2004 in Hong Kong by a group of founders who believed business could be a positive force for change. It is a mission-driven business which has evolved over time to become a leader on sustainability issues in Asia.