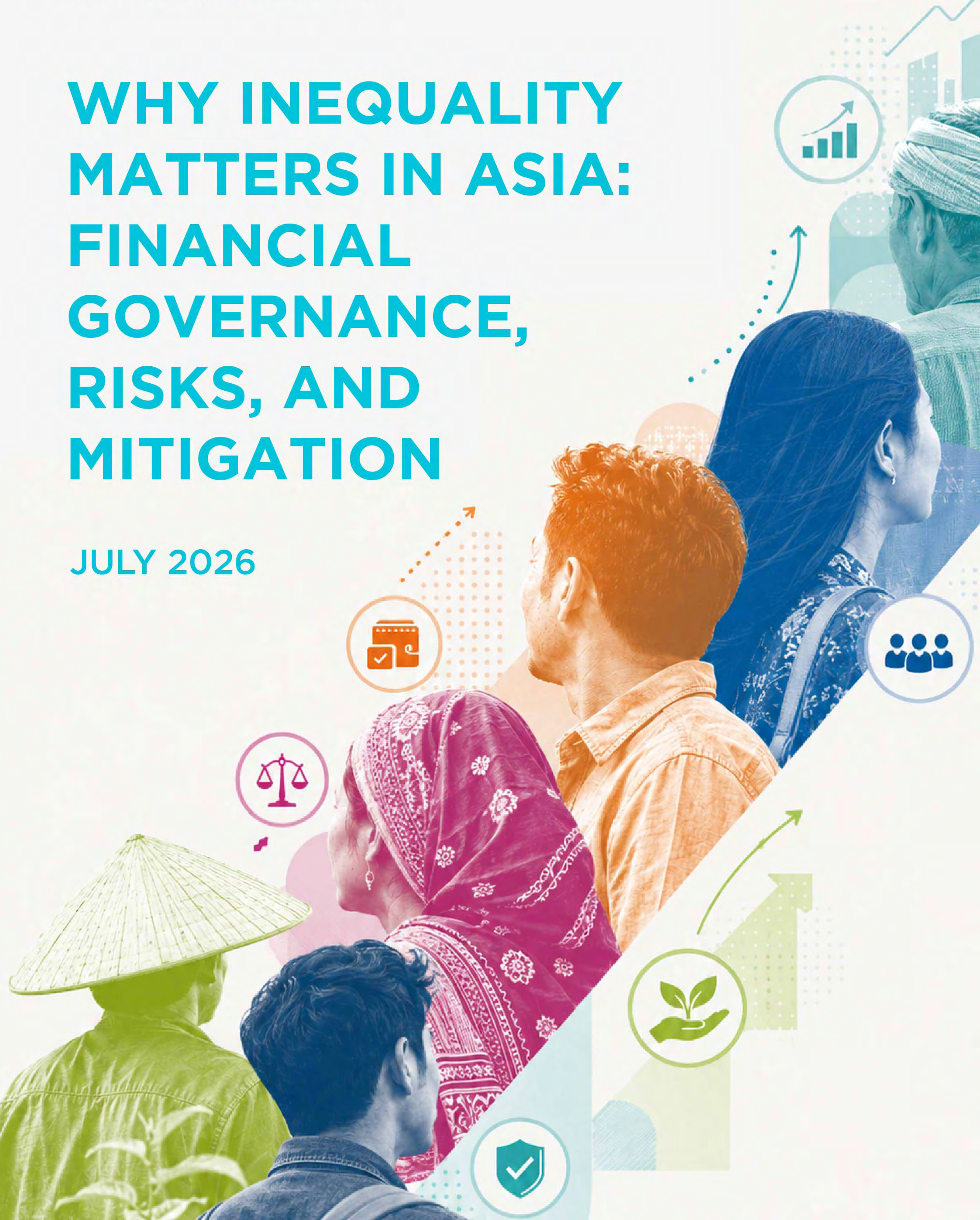
FAIR FINANCE ASIA

WHY INEQUALITY MATTERS IN ASIA: FINANCIAL GOVERNANCE, RISKS, AND MITIGATION

JULY 2026



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EXECUTIVE SUMMARY

Societal inequality poses significant systemic risks to the financial sector, threatening social justice and undermining economic stability and growth. The 2025 World Economic Forum's *Global Risks Report* identifies inequality and societal polarization as one of the top 10 global risks, highlighting the critical and profoundly interconnected nature of these risks.

The global risk of worsening economic inequality also has dire implications for the climate crisis, which disproportionately affects vulnerable and marginalized communities. Oxfam International's recent report on inequality highlights how the economic and political power wielded by the world's richest individuals exacerbates the climate catastrophe in three key ways: through disproportionate carbon consumption, financing of the fossil fuel economy, and exerting political influence to block climate action.

The richest individuals are not merely beneficiaries of the global economy. They also exercise considerable control over it. Oxfam's research indicates that the richest 1% own 43% of all global financial assets. There is also a strong link between extreme wealth and corporate power, with seven of the 10 biggest publicly listed corporations in the world having a billionaire as CEO or a principal shareholder. This corporate power is then leveraged to maximize short-term gains at the risk of adverse outcomes for people and the planet.

While climate change and biodiversity loss often dominate the sustainability agendas of investors and financial regulators, social and inequality risks such as income disparities, discriminatory practices, unsafe working conditions, and harms to local communities or Indigenous Peoples have not been sufficiently integrated into financial sector strategies. The negative inequality-related impacts of financial institutions, either directly through their own operations or indirectly through the businesses they finance, can lead to cumulative, system-level risks for the financial sector. These risks include major disturbances in social systems, known as systemic risks, that negatively affect the economy and financial system. Despite these significant implications, inequality-related considerations are not a key part of financial institutions' risk management frameworks.

This report examines how inequality shapes the operating context of Asian financial institutions and why embedding inequality considerations in risk management is essential for the resilience of the financial sector and broader inclusive development. Through this research, Fair Finance Asia (FFA) aims to provide financial institutions with practical guidance on incorporating inequality considerations in their operations and governance structures. The research also intends to help civil society organizations (CSOs) and rights-holders understand the links between the financial sector and inequality.

Understanding the multiple dimensions of inequality

Inequality is a complex, multifaceted challenge that extends far beyond simple differences in income. It manifests in two main ways: vertical inequalities, arising from hierarchical disparities in income, wealth, and political power; and horizontal inequalities, arising from differences based on gender, ethnicity, disability, education level, and religion. These two dimensions interact and overlap, with multiple forms of disadvantage compounding each other. For instance, individuals from the same ethnic minority group may experience inequality differently depending on their gender identity.

The impacts and dependencies of financial institutions

Financial institutions have an impact on a wide range of stakeholders, including workers, communities, consumers, and shareholders. They can help reduce inequality by expanding financial inclusion, practicing responsible lending, and using their leverage to influence corporate behavior. However, they can also exacerbate inequality when financing activities that violate human rights, displace communities, enable exploitative labor conditions, or maintain an economy's dependence on fossil fuels. With public trust and social cohesion underpinning financial stability, these impacts can create systemic risks that undermine the resilience of the financial sector.

Financial risks and opportunities arising from inequality

A framework developed by the Taskforce on Inequality and Social-Related Financial Disclosures–the TISFD Framework (Beta)–provides an analytical lens for understanding the dynamics of people, business, and society through four interrelated elements:

- Impacts of financial institutions on people;
- Dependencies of financial institutions on human and social capital;
- Risks at the entity level (financial institution) and system level (economy); and
- Opportunities at the entity and system level.

Poor attention to inequality issues can create financial risks for financial institutions, including credit, legal and compliance, market, operational, and reputational risks. These entity-level risks can affect people's rights and well-being through the financial institution's operational or financial decisions, capital allocation, and stewardship activities. Without sound management, these risks can aggregate into system-level risks that can threaten the overarching financial system.

Beyond risk mitigation, integrating inequality considerations into their due diligence processes offers financial institutions strategic opportunities. By incorporating social and inequality-related considerations into their activities, financial institutions can strengthen stakeholder trust, enhance portfolio stability, attract and retain skilled staff, and position themselves to benefit from the growing market for sustainable finance.

Embedding inequality risk mitigation in policies and governance

To safeguard long-term operational stability and institutional resilience, financial institutions should develop comprehensive sustainability policies that apply an inequality lens to operational, cross-cutting, and sector-specific frameworks. Aligning these policies with international standards, such as the United Nations Guiding Principles on Business and Human Rights (UNGPs) and ILO Conventions, and establishing clear, time-bound targets for reducing inequalities, is a sound risk mitigation strategy that also protects the financial institution from systemic risks such as market instability or social unrest. Strong governance involves assigning sustainability responsibilities at the highest levels, with board oversight and executive implementation supported by capacity building across all relevant business lines. Assigning board-level responsibility strategically positions the financial institution to navigate shifting social landscapes, thereby preserving its social license to operate and its ability to attract and retain skilled human capital.

Materiality and inequality risk assessment

A risk-based due diligence approach should extend beyond traditional financial materiality and potential impacts on the financial institution itself. Financial institutions should also adopt double materiality—assessing both how sustainability issues affect their financial performance (outside-in) and how their operations impact society and the environment (inside-out). Beyond this, dynamic materiality requires continuous monitoring of evolving risks rather than mere periodic assessments, enabling proactive identification of emerging responsible business conduct (RBC) issues.

Financial institutions should also conduct comprehensive stocktaking exercises to map exposure to inequality across portfolios, catalog existing mitigation measures, and identify gaps requiring enhanced due diligence and risk management strategies. Adopting a more proactive approach allows financial institutions to anticipate emerging social pressures, such as those related to AI ethics or changing labor standards, before they manifest as material financial losses or regulatory penalties.

Mitigating inequality risk throughout the project cycle

Design phase

Implementing environmental and social risk assessment (ESRA) frameworks with clear exclusion criteria for controversial activities acts as a defense against stranded assets. Initial environmental and social due diligence should identify projects that threaten critical habitats, violate workers' rights, lack FPIC of Indigenous Peoples, or lack operational-level grievance mechanisms (OLGMs). By rejecting projects that carry significant risks, financial institutions can protect their portfolios from credit defaults and severe reputational damage.

Due diligence

Comprehensive risk assessments can evaluate impacts at both the project and company level through environmental and social impact assessments (ESIAs) and environmental and social management plans (ESMPs). Financial institutions could categorize projects by risk magnitude and require enhanced due diligence for high-risk clients, particularly those operating in conflict-affected areas or shrinking civic spaces. Meaningful stakeholder engagement with rights-holders is essential, with independent verification required for high-risk situations.

Transaction structuring

Embedding sustainability requirements in loan agreements provides financial institutions with the practical leverage necessary to manage borrower risk. Loan agreements could embed sustainability covenants requiring compliance with international standards, ongoing ESG monitoring, community engagement, and prompt incident notification. Financing could be disbursed in tranches with conditions precedent, including OLGMs consistent with UNGP principles, evidence of stakeholder engagement, and Free, Prior, and Informed Consent (FPIC) from Indigenous communities.

Monitoring and project closure

Regular monitoring by independent consultants ensures ESMPs are implemented, with indicators covering occupational health and safety (OHS), grievance outcomes, and stakeholder consultation. When adverse impacts arise, banks must engage project sponsors to implement mitigation measures or consider disengagement. At project closure, performance assessments verify promised outcomes were delivered and inform future lending decisions, ensuring accountability extends beyond loan repayment.