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Efforts by Indonesia must focus on preventing deforestation, peatland degradation and forest fires. These account for more than half of the country's carbon emissions. PHOTO: BLOOMBERG

# Towards a growing and greener regional economy

Instead of exclusion, companies in South-east Asia should be supported and offered incentives as they take steps up the sustainability ladder. BY SIMON TAY AND MEIXI GAN

EVEN amid the Covid-19 pandemic, there is growing global recognition of another crisis that could be as big and probably worse – climate change. More governments are committing to address the problem, including China, the European Union and the United States under President Joe Biden. Global corporations and businesses too will face increasing expectations.

What is the outlook for our region?

Unless derailed by the pandemic, projections remain that Asean will emerge as one of the world's largest economies. As growth returns, the region will be expected to curb carbon emissions. Three Asean member states were invited to Mr Biden's recent climate summit: Singapore, Vietnam and Indonesia.

Singapore has released an unprecedented multi-ministry Green Plan to map its path towards net-zero.

Vietnam, coping relatively well with the pandemic, is on track for some 6 per cent economic growth and must undertake a key energy transition to lower emissions even as it increases manufacturing capacity.

Efforts by Indonesia, the region's largest country and economy, must focus on preventing deforestation, peatland degradation and forest fires. These account for more than half of the country's carbon emissions.

Similar concerns exist across Asean. Rather than serving as nature-based carbon sinks, forests across the region have become a significant carbon emitter over the last two decades. Associated agribusiness and forestry companies are under increasing criticism as forests are cleared to make way for plantations. This is being felt not only by traders and major buyers of forest commodities, but also by banks and investors in these sectors.

## CALLS FOR ACTION, ACCOUNTABILITY

There are signs to the positive. Indonesia has slowed deforestation rates for the fourth year running, positively defying a global trend. After suffering criticism, the larger and more international companies in these sectors have strengthened their disclosures on environmental performance.

Yet questions remain about how sustainability commitments will be translated into real action, and how actions will be verified. If not, there is a real risk that stated ambitions will turn out to be little more than "greenwashing". This is not a simple matter for the agribusiness and food sector, whose supply chains tend to be long and complex with inputs from many small suppliers. In palm oil, for instance, by some estimates there are 2.67million smallholders in Indonesia alone whose production feeds into that of larger players. So, even when companies announce commitments, it is not without reason that some remain sceptical about whether promises are always kept across the supply chain.

This adds to the pressure that banks and investors in this sector face, not just from regulators and shareholders but increasingly from major customers and non-governmental organisations. The responses at present are diverse.

Some financial institutions close their eyes. A 2021 Forest 500 report showed that of the 150 financial institutions assessed, 63 per cent did not have a deforestation policy for any of the key forest-risk commodities they financed.

Conversely, others exclude the sector entirely and blacklist palm oil and forestry companies, much as they do with controversial sectors such as weapons or tobacco. This may seem less risky. Yet exclusion has negative impacts too, by cutting off entire industries that are still vital to economic growth in the region and support millions of livelihoods, especially for smallholders. An exclusion policy also ignores the ubiquitous uses of palm oil and pulp and paper in many products. Moreover, some companies in these sectors have increased their commitment and action on environmental, social, and governance (ESG). Treating these companies as pariahs simply throws them into the arms of other financial institutions that have fewer scruples.

The choice for financial institutions need not be limited to either blind lending or wholesale exclusion. There are ways forward if there is increased information, transparency and accountability from the companies.

## IMPROVING DATA AND DISCLOSURE

Much hinges on broader adoption of green finance. A groundswell can be felt. At the global level, the recent Net-Zero Banking Alliance commits 43 banks to align emissions from their lending and investment portfolios with 2050 net-zero pathways.

Regional innovations are also emerging. One example is the Rimba Collective developed by Singapore-based Lestari Capital, which allows buyers and processors of palm oil to fund forest conservation projects in proportion to their procurement volumes.

Broadening and improving green finance will depend on transparency in this sector. This in turn requires companies to commit to good quality data and disclosures, aligned with international standards such as the Task Force for Climate-Related Financial Disclosures (TCFD).

The market must continue to encourage disclosure, including from companies whose disclosures show that they are not yet among the best-in-class. Rather than being shamed, these companies should be supported in taking steps up the sustainability ladder.

This also argues for transition financing policies, which allow a lender to continue financing a company that is not currently deemed to be "green", creating incentives for it to progress.

## 'TRAFFIC LIGHT' APPROACH

An industry task force convened by the Monetary Authority of Singapore recently recommended a "traffic light" approach to cater for the widely varying starting points seen among South-east Asian companies. Considering how activities align with sustainability objectives, they would be classified as green, red or else yellow, denoting efforts to make a transition for the better.

For agribusiness and forestry sectors that are in the process of reform, transition finance can be more inclusive. It can be helpful for smaller companies that do not have the immediate resources to obtain internationally recognised certifications, but are willing to adopt incremental solutions towards doing so.

Inclusivity and flexibility will bring risks of greenwashing. These need to be addressed not only through disclosures, but also clear time-bound roadmaps for "transition" activities to progressively become "green".

On May 25, 2021, the Singapore Institute of International Affairs will convene experts at the 8th Singapore Dialogue on Sustainable World Resources. Growing from a focus on preventing transboundary haze, there is now need for a broader discussion about how Asean countries and companies can collectively address climate action while improving lives of local communities.

Finance for Asean is critical for green growth. It is also an area where Singapore can move forward to make an outsized contribution.

In tandem with its national green plan, Singapore as an established financial hub can work with its neighbours to progress the region's positive climate impact, and future-proof growth prospects as global momentum shifts towards a greener and more equitable economy.

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