

# Greening finance, financing green

Bank Negara Malaysia drives the ESG agenda in financial sector operations



SMEs and large corporations alike must join hands to embrace ESG to realise the country's ambition to achieve net zero GHG emissions by 2050 without disruptive effects. - SAMUEL ONG/The Star

By YAP LENG KUEN

FOR Malaysia to meet its net zero emissions by 2050, much of the estimated investments and funding needed – ranging between RM350bil to RM450bil – is expected to come from private sector sources.

It is evident that financial institutions (FIs) have a crucial role to play in the transition to a low-carbon world.

Considering that the biggest contributor to FIs' carbon footprint lies in Scope 3 emissions – also referred to as financed or indirect emissions related to financial products and services – it comes as no surprise that FIs are increasingly taking it seriously as part and parcel of achieving their net zero commitments.

More importantly, however, is how FIs can support and enable the transition to sustainability, especially in terms of measuring and mitigating exposures to climate-related risks in their loan and investment books.

"We expect that FIs, in collaboration with technical partners including climate experts, will have an important role in providing advisory support to their customers, particularly small businesses, in their transition efforts," said Bank Negara Deputy Governor Datuk Jessica Chew.

In customers' efforts to reduce their greenhouse gas (GHG) emissions and green their operations, FIs can help realise the transition by supporting the ability of their customers to measure, track and report emissions reductions.

FIs can also help customers in working with relevant government agencies and private sector partners in building capacity to develop and execute credible transition plans.

As part of the financial services sector, insurers can then step in to complement traditional risk transfer solutions by helping customers to strengthen their climate resilience to reduce insurance risk.

Insurance coverage, for instance, could be increasingly conditional upon businesses taking efforts to render their physical facili-



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ties and business operations more resilient to climate events.

## The way forward for financing

New innovative forms of financing will be key to achieving the scale of financing required to meet Malaysia's climate ambitions.

Bank Negara is working with the industry to explore public-private partnerships for the development of innovative protection products and blended finance options that allow for alternative risk-sharing arrangements.

"Through this, we aim to create an ecosystem that is conducive for FIs to scale up transition finance sustainably," said Chew.

A new financing approach – transition financing – is aimed at supporting companies that are trying to reduce GHG emissions.

As at September 2022, a total of 50 out of 122 FIs have set specific climate targets such as net zero or no coal commitments. A growing number of FIs now have dedicated functions and/or senior officers to drive their respective sustainability agenda.

There are more product offerings such as sustainability-linked loans, solar financing and sustainable trade finance solutions, with increasing amounts of financing committed by industry players.

## Greater visibility, transparency

Starting July 2022, FIs have begun submitting half yearly reports to Bank Negara on Climate Change and Principle-based Taxonomy (CCPT) classifications of their exposures in terms of climatic impacts and risks. The CCPT is an early mover in establishing a transition taxonomy that supports a just and orderly transition.

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"This is achieved by including transition categories and preserving strong incentives for businesses to sustain progress in their transition efforts," said Chew.

The CCPT's guiding principles are company- and sector-agnostic, which means that they are applicable to any economic activity and company, regardless of the sector it is involved in.

The economic activity or company must support climate change mitigation and/or adaptation, not cause significant harm to the environment or it must demonstrate credible remedial efforts to reduce climate or environmental risks and not involve illegal or prohibited activities.

Unlike other taxonomies, commitment and willingness to improve practices, demonstrated through credible remedial measures, are taken into account in classifying economic activities.

Beyond that, Chew stressed that Bank Negara is also doing more to improve the consistency of reporting and ensure that reporting is free of greenwashing practices.

This is mainly due to the fact that accusations of greenwashing practices are growing in tandem with the rising call from stakeholders for companies to align with ESG considerations. Greenwashing refers to advertising or marketing spins that make misleading or deceptive claims on a product or activity being environmentally friendly.

Beyond that, Chew said the availability of and access to credible data remains a key challenge. To do so, FIs will need to engage with their customers to obtain relevant information for risk assessment, reporting and disclosures.

To facilitate this process and ease the information burden on customers, an industry implementation group established under the Joint Committee on Climate Change (JC3) is developing a due diligence questionnaire together with the World Wide Fund for Nature (WWF) Malaysia and based on CCPT guiding principles, for adoption by FIs.

The questionnaire aims to help identify and capture pertinent information from cus-



IN line with its financial and monetary stability mandates, Bank Negara's focus is to manage risks posed by unmitigated climate change to financial intermediation activities and account for these risks appropriately in its consideration of risks to growth and inflation. Its three key strategies include:

- > **Integration of climate and environmental risks into regulation and supervision of financial institutions (FIs).**

Bank Negara Malaysia is working to integrate climate and environmental risks into how it regulates and supervises FIs, where climate considerations are incorporated in its supervisory engagements and it sets out regulatory expectations on risk management.

Bank Negara has issued principles in managing climate risks and climate-related stress testing, which builds a consistent way for financial institutions to identify, measure and report climate-related risk exposures.

tor effectively mitigating climate-related risks and capturing transition opportunities, Bank Negara recognises that data is key to understanding climate-related risks and opportunities.

This is why it is working closely with the industry players and relevant stakeholders through the JC3 to improve the accessibility to and quality of climate-related data. Accordingly, the JC3 is on track to publish a data catalogue by year-end as a reference source for FIs and other users to identify credible sources of key climate data.

On funding, an RM1bil Low Carbon Transition Facility (LCTF) has been introduced to match funds provided by FIs to help small and medium enterprises (SMEs) embrace sustainable and low carbon practices.

Another RM800mil has been allocated under the High Tech and Green Facility to help SMEs and innovative start-ups in strategic green and technological fields.

In acknowledging that green finance is an evolving space, Bank Negara is seeking to scale up green financial solutions by exploring various pilot solutions to encourage innovation. These include innovative protection products for floods, as well as blended finance options to explore risk-sharing arrangements that can crowd in much-needed private funding for transition activities.

> **Organisational changes to embed considerations on climate and environmental risks across all Bank Negara's functions.**

Climate and sustainability impacts are being included into Bank Negara's macro-economic and financial stability assessments, while financial and non-financial assets are being managed with greater consideration of climate and environmental risks, with the goal of reducing the carbon footprint in its own operations.

Bank Negara is working with its counterparts across Asean to encourage financial flows to the region's transition efforts, in recognition of the importance of intraregional trade and financial flows that are expected to further strengthen moving forward.

Bank Negara, as a member of the Asean Taxonomy Board, has contributed to the development of the **Asean Taxonomy on Sustainable Finance** (Version 1) issued in November 2021.

Closely aligned with the CCPT, the Asean Taxonomy aims to deliver a regional taxonomy in support of transition finance that is both credible and inclusive, as well as serves to address fragmentation and reduce compliance costs for financial institutions and their clients.

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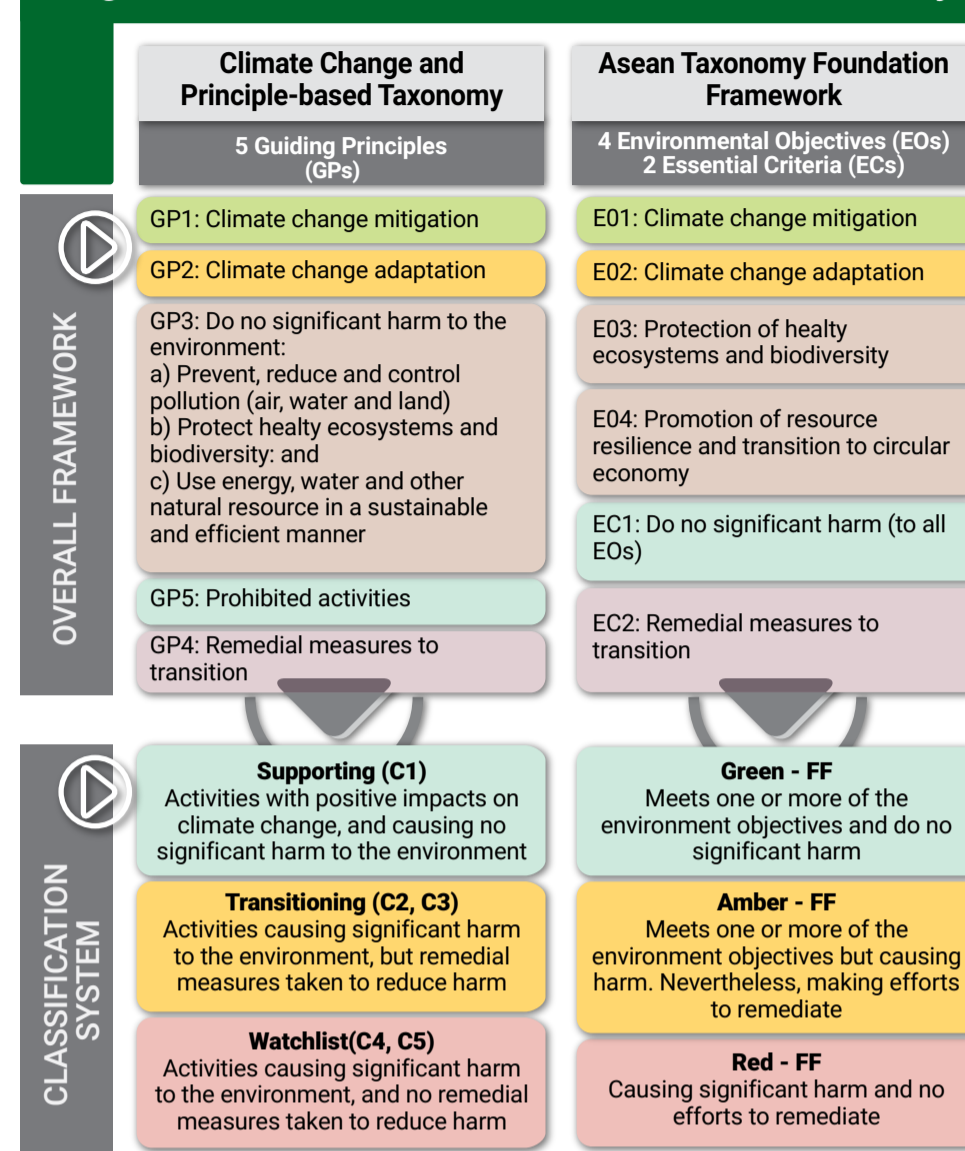
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## Focus on SMEs

With small and medium enterprises (SMEs) accounting for approximately 97% of

## Alignment between CCPT and Asean Taxonomy



Source: Bank Negara Malaysia

The CCPT and the Asean Taxonomy are closely aligned, be it in the overall framework or the classification system.



Bank Negara is working with the industry to explore public-private partnerships for the development of innovative protection products and blended finance options that allow for alternative risk-sharing arrangements. - IZZRAFQI ALIASI/The Star.

Sustainable Finance Landscape in Malaysia released earlier this year, the top three challenges identified in driving the sustainability agenda are poor data quality and availability, lack of incentives, as well as low awareness of green finance solutions in the market.

"A particular focus of Bank Negara is SMEs. We have launched dedicated funds to support SMEs in adopting low carbon or green business practices," she added.

As part of its initiatives to drive the transition among SMEs, Bank Negara has introduced an RM1bil Low Carbon Transition Facility (LCTF) to match funds provided by FIs to help SMEs embrace sustainable and low carbon practices.

Separately, it has also allocated RM800mil under the High Tech and Green Facility to help SMEs and innovative start-ups in strategic green and technological fields.

To further support SMEs to pivot towards greener practices, the Greening Value Chain programme was launched in conjunction with the Finance Day at COP-27, the United Nations Climate Change conference. It aims to assist SMEs in implementing impactful long term change to green their operations, and remain competitive as part of global supply chains.

All in all, the sustainability journey ahead requires a lot of work and awareness building. The momentum is set and all must strive to deliver a better world.