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Challenges for sustainable finance

MY Say

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"We must redirect resources towards supporting and implementing actionable ideas from the specialists who know what is needed on the ground"

Sustainable finance is a rapidly evolving area that is now at the front and centre of priorities for financial institutions globally. Significant strides have been made, as various stakeholders — especially conservationists — have exposed institutional shortcomings that culminate in the facilitation of environmentally and socially destructive behaviour.

Financial institutions globally have embarked on the journey through collaborative efforts, including the United Nations Environment Programme Finance Initiative (UNEP FI) Principles for Responsible Banking (PRB), where 270 banks, representing 45% of banking assets worldwide, have committed to aligning sustainability targets and road maps to the Paris Climate Agreement and United Nations Sustainable Development Goals.

It is positive to note that non-governmental organisations and civil society groups have initiated and catalysed change by developing practical resources that can be readily applied by financial institutions, such as the World-wide Fund for Nature's Sustainable Banking Assessment (SUSBA), alongside initiatives such as the Principles for Responsible Investing (PRI) and the Principles for Sustainable Insurance (PSI).

While much has been done, more is needed. Financial institutions cannot continue to lean on the repeated mantra of being on a journey as we enter 2022. The Earth cannot wait for us to learn to run.

Why has impactful transformation been a slow, laborious process?

In simple terms, the instinctual defensive character of the industry has meant that financial institutions are still not actively being the change-makers they are eager to be portrayed as.

This is not for a lack of passion.

In conversations with finance professionals today, most are eagerly wanting to see change. Any banker with a rudimentary understanding of extrinsic factors and externalities would not deny that protecting the planet's natural capital while ensuring prosperity and respect for fellow human beings are a common goal.

To overcome the inertia, the industry needs to address three major challenges that are hindering progress on sustainable finance.

Technical implementation and capacity

Financial institutions must move beyond overarching commitments and dig deeper to understand and address issues. When the world is on fire, a sustainability policy that merely defines a financial institution's governance structure and discloses how business relationships are managed will not make the cut.

Financial institutions need to educate ourselves better in terms of understanding — for instance, the importance of primary forests, peatlands, workplace safety, community empowerment as primary issues. We tend to allow conversations to still be dominated by transformative forces from within. As much as Mark Carney and Mike Bloomberg are leading voices for change, we could do better by putting into action the messages from Greta Thunberg, David Attenborough and Jane Goodall, to mention some prominent examples.

Importantly, financial institutions need to empower and take lessons from local heroes working on the ground. Sustainability practitioners spend their days fighting fires and saving species from extinction, literally, while we attend webinars on scenario analysis. Examples in the Asean region include Global Environment Centre, Tropical Rainforest Conservation and Research Centre, Borneo Rhino Alliance, All Women's Action Society (AWAM) and Tenaganita, to name but a few.

Financial institutions need to engage subject matter experts and devote resources to enabling these guardians of natural capital to do the work that urgently needs to be done. Climate stress testing, for instance, is an imminent expectation from regulators but will not bring tangible impact to improving environmental and social outcomes.

Internally, capacity on environmental, social and governance (ESG) issues needs to be built through hiring environmental and social practitioners equipped with real-world implementation experience who can adapt to the intricacies of the financial sector. Current norms still lean towards expecting bankers and risk professionals to understand climate and sustainability impacts despite having little actual on-ground expertise.

Impact

The key goal in setting sustainability strategy and action plans must be achieving impact. In practice, financial institutions continue to devote resources to low-impact, high-visibility efforts, where resources are spent on reporting and disclosure instead of towards positive ESG outcomes. Quite a paradox for the financial industry.

Impact means delivering on commitments. Impact means saving a natural habitat and ensuring long-term species survival through the conservation of 10,000ha of natural forest — not planting trees once a year.

We need to refocus efforts, and that can happen only through honest engagement and input from subject matter experts. We must redirect resources towards supporting and implementing actionable ideas from the specialists who know what is needed on the ground. When disclosing data on the Task Force on Climate-related Financial Disclosures' recommendations, financial institutions must highlight how they are contributing to tangibly reducing negative environmental harm today, that feeds into the longer-term scenarios on climate risk.

Climate and society

While the climate agenda takes centre stage, financial institutions must not lose sight of societal accountabilities. The global financial services sector was worth an estimated US$22.5 trillion in value in 2021. It is an unfathomably large number, but are financial institutions prepared to address the living conditions of the significant share of low-wage workers who still rely on government assistance due to low wages?

A key question to ask would be how the outsourced contractual employees are earning a living wage — the ones entrusted to do the indispensable work of cleaning our workspaces and restrooms, ensuring the lightbulbs are replaced, and maintaining essential infrastructure. These issues can be addressed through better social compliance audits and by actually listening to and accounting for workers' grievances.

We need to address inequalities and must do more to ensure shared prosperity. The climate agenda will not be achieved until we address basic livelihood needs of the worst-off in society.

Looking forward to 2022 and beyond

While this article presents moralistic arguments on priorities, it is accepted that these calls to action cannot be realised in the near term. We as sustainability practitioners face bureaucratic challenges and we remain cost-centres in an industry driven by shareholder returns. Do not be taken in by the rhetoric that all stakeholders matter. Some matter more than most.

We need to be honest about our challenges if we are to stand a chance of overcoming them. "Failure is not an option" is the oft-repeated catchphrase we chant to ourselves when we know the closest we can ever get to that ideal is damage control. At the very least, let us get closer to ideals in 2022.

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