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CENTER FOR SUSTAINABLE FINANCE

FAIR FINANCE ASIA PHILIPPINES
Building a responsible financial sector in Asia

IMPLEMENTING SUSTAINABILITY IN THE PHILIPPINE BANKING AND CORPORATE SECTORS

February 2023

Preface

This report is part of a research series on sustainable finance by the Asian Institute of Management Gov. Jose B. Fernandez, Jr. Center for Sustainable Finance (AIM JBF Center), which has previously studied the sustainable finance landscape in the Philippines in two reports: (1) Financing and Valuating Ecosystem-based Adaptation in the Philippines: A Handbook for Banks and Financial Institutions[1] and (2) Operationalizing Sustainable Finance for Ecosystem-based Adaptation Projects: A Primer for Banks and Financial Institutions.[2] Readers may refer to these two reports for an introduction on sustainable finance in the Philippines. The current research, "Implementing Sustainability in the Philippine Banking and Corporate Sectors," is commissioned by IDEALS, Inc. and supported by Fair Finance Philippines (FFP) through Fair Finance Asia (FFA), a regional network of Asian civil society organizations committed to ensuring responsible banking and sustainable finance across Asia. The coalition is formed by five Philippines-based organizations that advocate for the effective adoption of environmental, social, and governance criteria in banking to mitigate the negative effects of irresponsible investments. This publication is made possible with financial assistance from the Swedish Embassy in Bangkok, Thailand.

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List of Acronyms and Abbreviations

AIM	Asian Institute of Management
BSP	Bangko Sentral ng Pilipinas
CEO	Chief Executive Officer
COVID-19	Novel Coronavirus Disease 2019
CSR	Corporate Social Responsibility
DTI	Department of Trade and Industry
EDC	Energy Development Corporation
ESG	Environmental, Social, and Governance
ESRM	Environmental and Social Risk Management
FFA	Fair Finance Asia
FFP	Fair Finance Philippines
FGD	Focus Group Discussion
FPH	First Philippine Holdings
GRI	Global Reporting Initiative
MSMEs	Micro, Small, and Medium Enterprises
NCR	National Capital Region
NDC	Nationally Determined Contribution
NRBSL	New Rural Bank of San Leonardo
PLC	Publicly-listed Corporation
RBSP	Rural Bank Strengthening Program
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SEC	Securities and Exchange Commission
SPO	Second Party Opinion
TCFD	Task Force on Climate-related Financial Disclosure
UN	United Nations

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Executive Summary

Sustainability and sustainable finance are two sides of the same coin. Private sector organizations need to identify environmental, social, and governance factors that are material to their business operations and implement efforts to reduce impacts and improve on outcomes. Mobilizing financial resources is a key enabler for industries and businesses to get their sustainability initiatives off the ground.

Mobilizing financial resources necessitates a two-fold approach—making the business case for sustainability in the Philippine banking and corporate sectors to cover both the demand and supply sides. While many large corporations already understand the added value of integrating sustainability in their different business activities and operations, there is still a need to demonstrate to micro, small, and medium enterprises that sustainability efforts are feasible for smaller organizations. This report investigates the current state of sustainability activities in the private sector corporations and discusses the different challenges that impede these kinds of efforts.

The Bangko Sentral ng Pilipinas issued a circular in 2020, which compels financial institutions to offer sustainable finance products. However, only a few big commercial banks have integrated sustainable finance in their operations since the directive was issued. The second half of this report analyzes the current state of transition of the financial sector toward sustainable finance, and discusses the issues hindering development of sustainable finance frameworks.

This report presents key findings from two surveys, one with private sector corporations, and the other with banks. Insights from focus group discussions with small businesses and rural banks highlight the challenges to organizations with fewer resources. Case studies illustrate good practices on implementing sustainability and approaches to sustainable finance. The report concludes with recommendations for key sustainability actors.

1. INTRODUCTION

The implementation of the UN Sustainable Development Goals (SDGs) is strongest in countries that utilize both public and private financial systems in their sustainable finance models.[3] Sustainable finance incorporates environmental, social, and governance (ESG) standards to assess the value, performance, and long-term growth of an asset.[4] The Bangko Sentral ng Pilipinas (BSP), the monetary authority in the Philippines, issued BSP Circular No. 1085 (Sustainable Finance Framework) in April 2020, setting out expectations for the country's financial system to integrate sustainability principles in the corporate governance and risk management framework as well as operations of banks.[5] Two out of the three years transition period have passed and only a few big commercial banks have integrated sustainable finance in their operations to date.

Sustainable finance and sustainability are two sides of the same coin. Business strategy is guided by the need for agility and resilience as the world recovers from the COVID-19 pandemic. ESG criteria are becoming essential when implementing corporate activities, which necessitate access to capital.[6] However, companies face constraints in financing sustainable initiatives, prompting the urgency for developing the supply chain for sustainable finance.[7] The private sector may attempt to subsidize the cost of sustainability, but investment decisions are tempered by risk appetite and the shortage of financially feasible operations.[8] Sustainability in industries can be promoted through the growth of sustainable finance,[9] but the financial sector has to work alongside industries, corporations, and micro, small, and medium enterprises (MSMEs) to promote positive ESG impacts through their financial and investment activities.[10]

This study examines the intersection of sustainable finance and sustainable development in the Philippines by assessing both the demand and supply for sustainable finance. On the demand side, this paper investigates the different ways private organizations embed sustainability practices in their business operations and understand how the sector manages non-traditional risks, such as environmental and social issues. The report also analyzes the financing requirements of the private sector when going beyond business as usual. The supply side analysis looks into the current state of implementation of sustainable finance of the banks and identifies the different factors that enable or hinder banks during this transition. The overall objective of this paper is to raise awareness in the Philippine banking industry and corporate sector regarding the benefits of sustainability and sustainable finance.

2. REGULATORY FOUNDATIONS

2.1 International Commitments to the Paris Agreement[1]

The Philippines, as party to the Paris Agreement, submitted its Nationally Determined Contribution (NDC) in April 2021, committing 75% reduction of greenhouse gas emissions by 2030. However, only 3% is unconditional and funded by the government's internal resources, while the remaining 72% is conditional on receiving foreign assistance to close the financing gap. Five sectors have been identified as key to meeting this commitment: (1) agriculture, (2) waste, (3) industrial processes and product use, (4) transport, and (5) energy sectors. The NDC acknowledges the critical role of the private sector as the country's primary engine for growth and development, thus the need to engage the sector in climate change adaptation and mitigation measures.[11]

2.2 Securities and Exchange Commission (SEC) Memorandum Circular No. 4 Series of 2019 on Sustainability Reporting Guidelines for Publicly Listed Companies[12]

Principle 10 of the Code of Governance for Publicly-Listed Corporations (PLCs) states that publicly-listed companies should ensure that the material and reportable non-financial and sustainability issues are disclosed,[13] which aims to promote sustainability reporting and make it relevant for Philippine publicly-listed companies as shown in SEC's sustainability reporting framework in Figure 1.

OUR COMPANY is a Sustainable Business	We conduct our businesses in an ETHICAL manner	Corporate Governance
	We manage our KEY IMPACTS	Economic Environmental Social
	Our products and services create VALUE TO SOCIETY	Contribution to Sustainable Development

Figure 1. SEC Sustainability Reporting Framework

Source: SEC (2019).[14]

[1] The Paris Agreement is a legally binding international treaty on climate change, adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. Its goal is to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. Countries submit their plans for climate action known as nationally determined contributions (NDCs) by 2020. In their NDCs, countries communicate actions they will take to reduce their greenhouse gas emissions and actions they will take to build resilience to adapt to the impacts of rising temperatures (UNFCCC, n.d.).

The guidelines identify how these organizations should assess and manage non-financial performance across economic, environmental and social aspects of their business, which will help publicly listed companies determine and monitor their value-added contribution toward achieving the SDGs and other national and regional targets. Corporations that already report on their sustainability efforts using internationally recognized standards such as Global Reporting Initiative's (GRI) Sustainability Reporting Standards, the International, Integrated Reporting Council's Integrated Reporting Framework, the Sustainability Accounting Standards Board's (SASB) Sustainability Accounting Standards, and the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), are already considered to be compliant. The SEC provides a reporting template for other corporations to follow [see Appendix for the summary].

An interview with an SEC representative revealed that corporations are currently given a three-year transition period ending in 2022 for voluntary reporting. Sustainability reporting guidelines apply a compliance approach, with PLCs providing an explanation why they are not able to submit one. There are currently no penalties given during this transition period, hence the reason the SEC is currently not conducting reviews of the sustainability reports. According to the SEC interview, 90.77% of PLCs complied with submitting sustainability reports in 2019, increasing to 95% in 2021, and 95.2% in 2022 (estimate). The SEC plans to issue revised guidelines in 2023, after the three-year transition period is over, and adopt a stricter and more comprehensive sustainability reporting guidelines.

The interview also noted that getting the message of the importance of sustainability reporting across to the PLCs has been the primary challenge of implementing this directive. The report is complex and relatively costly and many PLCs viewed it as a tick-box exercise for compliance. The SEC conducted thirteen workshops to engage as many stakeholders as possible and get the PLCs to understand the business case for adopting sustainability reporting. It helped that there is also a market driven pressure for PLCs to report; the sustainability report, being a public document, can enhance corporate reputational advantage with customers and investors. The SEC also presented business case studies, which showed company savings vis-à-vis implementing ESG related strategies and programs. Furthermore, some PLCs have a lack of practical know-how on producing an integrated report. The SEC designed capacity-building exercises to support the PLCs in crafting their respective sustainability reports for the first time.

The SEC is also currently conducting an analysis of the sustainability reports, according to the interview. The choice of reporting standards depended on the level of maturity of the PLC. Those that were already reporting even before the directive have now transitioned into the integrated reporting format. First time reporters primarily adopted the sample template provided by SEC in the guidelines [see Appendix]. Trends from the analysis indicate that PLCs have increased focus on non-financial matters alongside the economic impact. Corporate compliance officers were very supportive of the SEC sustainability reporting directive because it made it easier to champion their causes to the board.

2.3 BSP Circular No. 1085 Series of 2020[15]

The Sustainable Finance Framework, issued in April 2020, provides the overarching principles in integrating sustainability principles and ESG considerations in banks' corporate and risk governance frameworks, strategies, and operations. There are three key elements in circular 1085, as shown in Figure 2. Banks are required to fully implement the framework by 2023.

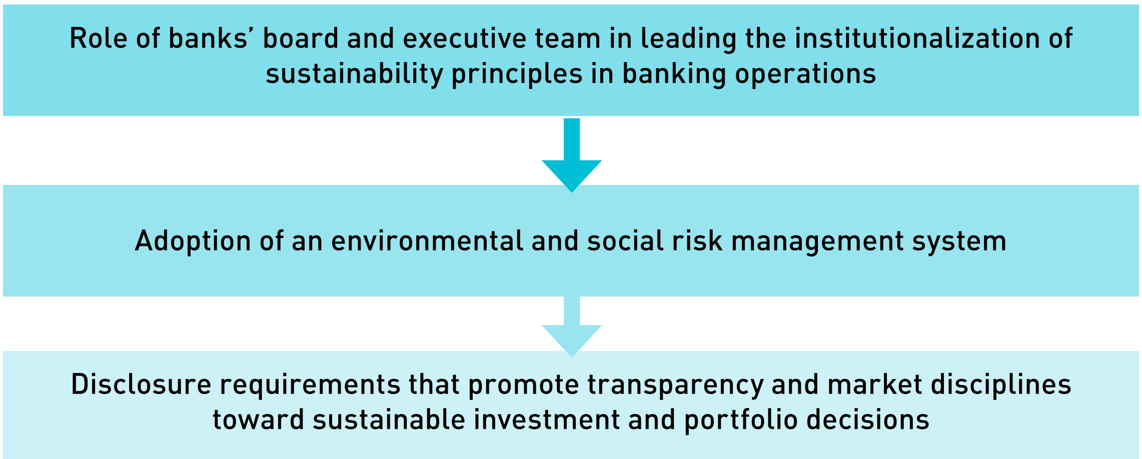

Figure 2. Key elements of the sustainable finance framework

Source: BSP (2020).

2.4 BSP Circular No. 1128 Series of 2021 on Environmental and Social Risk Management (ESRM) Framework[16]

The BSP issued more specific guidelines that govern the integration and management of environmental and social risks in relation to the enterprise-wide credit and operational risk frameworks of banks in October 2021. The ESRM framework outlines the bank's board and senior management responsibilities in setting strategic ESG objectives, integrating material ESG risks in the bank's planning process, and implementing a knowledge transfer and capacity building program to equip all necessary bank personnel with the skills to implement the guidelines.

The framework mandated banks to include ESG risks in defining risk appetite, review their existing loan portfolio and credit risk strategy, define activities that are eligible for financing based on their ESG objectives, and progressively increase targets of their loan portfolio toward more sustainable projects. Furthermore, banks are required to conduct stress testing activities to assess vulnerabilities and address those in their business continuity plans.

2.5 The Philippine Sustainable Finance Roadmap[17]

The Philippine government launched its sustainable finance roadmap in October 2021 to address the country's policy and regulatory gaps in promoting sustainable investments, which supports the country's transition to a low-carbon economy. This roadmap focuses on activities related to both the greening of the financial system and the financing of sustainable activities, with a spotlight on climate change action. The roadmap was developed by 18 government agencies that are part of the Green Force, the inter-agency technical working group for sustainable finance led by the Department of Finance and the BSP (see Table 1). The roadmap uses a whole-of-government approach in mitigating and adapting to ESG related risks and channeling the flow of financial resources to sustainable projects and investments.

Table 1. Inter-agency Technical Working Group for Sustainable Finance

Green Force Members	
• Department of Finance	• Bases Conversion and Development Authority
• Bangko Sentral ng Pilipinas	• Department of Agriculture
• Securities and Exchange Commission	• Department of Budget and Management
• Insurance Commission	• Department of Interior and Local Government
• Climate Change Commission	• Department of Public Works and Highways
• Department of Energy	• Department of Science and Technology
• Department of Environment and Natural Resources	• Department of Transportation
• National Economic and Development Authority	• Department of Trade and Industry (DTI)
	• Mindanao Development Authority
	• Public-Private Partnership Center

Source: Lucas (2021).[18]

The roadmap identifies three pillars for creating a conducive environment, mainstreaming sustainable finance, and developing a sustainable pipeline, outlined in Table 2.

Table 2. Pillars of the Sustainable Finance Roadmap

Pillar	Strategies
Policy	• Integrating sustainability considerations into macroeconomic policies and regulations • Strengthening coordinating efforts within the financial ecosystem • Embedding sustainability into the risk management of the banking, insurance, and asset management sectors • Encouraging sustainability and climate-related disclosures • Conducting capacity building • Joining international initiatives on sustainable finance
Financing	• Promoting sustainable financial products • Improving the sustainable finance definition and creation of a principles-based taxonomy • Tracking sustainable finance flows
Investment	• Driving sustainable investments • Financing low carbon energy • Establishing a sustainable pipeline database, both for public and private sector projects • Progress monitoring and regular updating, including linking sustainable pipeline to SDGs, PDP, and NDC targets

Source: The Philippine Sustainable Finance Roadmap.

2.6 The Philippine Sustainable Finance Guiding Principles[19]

The set of guiding principles accompanies the Sustainable Finance Roadmap, serves as the primary reference for identifying activities that address the impact of climate change, and contributes to sustainable development. The set of guiding principles is the mechanism for establishing a common language among stakeholders in understanding what forms of development activities may be considered as “sustainable,” shown in Table 3. The country’s financial system is then expected to prioritize and accelerate financing toward these activities. Non-financial institutions, such as MSMEs as well as large corporations, may also use the guiding principles to translate long-term sustainability goals into tangible capital expenditure and operational expenditure projects that can be financed by banks. The guiding principles promote the alignment between the supply and demand for sustainable finance.

Table 3. Activities aligned with the Philippine Sustainable Finance Guiding Principles

Guiding Principle	Activities
1. Climate change and adaptation	• Energy efficiency and renewable energy • Green buildings • Low carbon mobility • Climate change mitigation • Increasing resilience • Reforestation and afforestation
2. Promoting transition to a low carbon economy	• Activities that help achieve NDC targets • Reduction of greenhouse gas emissions in key sectors and product lifecycles • Green jobs
3. Resilient food systems	• Food availability, health and nutrition • Environmentally responsible food systems • Adaptation and resilience in food systems
4. Sustainable cities	• Smart and intelligent cities • Clean cities • Healthy urban densification • Resilient cities • Peaceful and inclusive cities • Making communities more sustainable
5. Sustainable and resilient infrastructure	• Decreasing production costs • Increasing production capacity • Access to key facilities • Connecting economic activities and markets • Resilient infrastructure
6. Environmental management and conservation	• Pollution control measures • Protection and restoration of ecosystems • Endemic species in reforestation and afforestation • Natural resource accounting and payment for ecosystem services
7. Prohibited activities	• Activities that negatively impact the socioeconomic wellbeing of communities in the long term • Activities that negatively impact mitigation and adaptation efforts • Activities that negatively impact the other principles

Source: The Philippine Sustainable Finance Guiding Principles (2021).

2.7 Proposed Expansion to the Agri-Agra Law

Republic Act No. 10000, or the Agri-Agra Law, requires all government and private financial institutions to allocate at least 25% of their loan portfolio for agriculture (15%) and agrarian reform beneficiaries (10%). The Agriculture, Fisheries And Rural Development Financing Enhancement Act of 2022 is a new financing bill that proposes to remove the distinction between the allocation of loanable funds for agriculture and agrarian reform purposes and expand the modes of compliance with the Agri-Agra Law. The expansion includes green finance and public infrastructure projects, as well as income-generating activities that would benefit the rural agrarian reform and agricultural sector. This provides banks and other financial institutions greater flexibility in providing financing for this particular sector.[20]

3. THE DEMAND FOR SUSTAINABLE FINANCE IN THE PHILIPPINES

The private sector, one of the engines for inclusive growth and development, is the primary source of demand for sustainable finance. In developing economies, the private sector generates 90% of employment, funds 60% of all investments, and is the primary revenue source for the government.[21] The 2020 List of Establishments of the Philippine Statistics Authority recorded 957,620 registered business enterprises operating in the country, a significant decline from more than one million registered businesses in 2019 due to the COVID-19 pandemic. Of these, more than 99% are classified as MSMEs and less than 1% are large enterprises. Although fewer in number, large enterprises account for 37% of total employment. Among large corporations, 286 of the 4,651 registered establishments are publicly-listed companies with the Philippine Stock Exchange as of 30 June 2022.[22] Micro enterprises make up 89% of the total MSME establishments, with the remaining 10% small enterprises and 1% medium enterprises.[23] Table 4 shows the distribution of establishments and employment in large corporations while the distribution for MSMEs is described in Table 5.

Table 4. Distribution of large corporations by number of establishments per sector

By Number of Establishments		By Employment	
Manufacturing	23%	Administrative and support services	31%
Administrative and support services	23%	Manufacturing	26%
Wholesale and retail trade; repair of motor vehicles and motorcycles	12%	Construction	7%
Construction	7%	Wholesale and retail trade; repair of motor vehicles and motorcycles	7%
Education	6%	Real estate activities	5%
Other industry sectors	29%	Other industry sectors	24%
Total Number of Large Corporations	4,651 (100%)	Total Employment by Large Corporations	3,206,011 (100%)

Source: DTI (2021)[24]

Table 5. Distribution of MSMEs by sector

By Number of Establishments		By Employment	
Wholesale and retail trade; repair of motor vehicles and motorcycles	47%	Wholesale and retail trade; repair of motor vehicles and motorcycles	36%
Accommodation and food services activities	14%	Accommodation and food services activities	14%
Manufacturing	12%	Manufacturing	14%
Other service activities	6%	Financial and insurance activities	6%
Financial and insurance activities	5%	Education	5%
Other industry sectors	16%	Other industry sectors	25%
Total Number of MSMEs	952,969 (100%)	Total Employment by MSMEs	5,380,815 (100%)

Source: DTI (2021)[25]

MSMEs serve as the backbone of the economy and are particularly important for developing economies, such as the Philippines, because of their potential for job creation. Yet, the growth of MSMEs is hindered by a lack of access to financing,[26] which has been compounded in the last two years due to the COVID-19 pandemic and the subsequent lockdowns and restrictions led to difficulties in logistics and value chain management. The negative impacts of the pandemic and lockdowns on MSMEs were more severe because these enterprises rarely have business continuity plans, especially in times of crises.[27]

Unlike publicly-listed corporations, which are required by the SEC to report on sustainability, not much is known about the ESG related activities of MSMEs. Understanding the sustainability practices, as well as its challenges for MSMEs, has the potential to unlock demand for sustainable finance. Providing MSMEs with access to financing is a critical mechanism for implementing the SDGs as well as national goals on a more local scale that benefits many Filipinos who might otherwise be overlooked. Creating opportunities for MSMEs in emerging markets consequently has the potential to improve on ESG targets for all.[28]

4. PRIVATE SECTOR PERSPECTIVES ON SUSTAINABILITY

4.1 Survey of Sustainability Practices of Metro Manila MSME Food Establishments

Fifty Metro Manila MSME food establishments participated in a survey on their sustainability practices. The survey indicated that 40% of MSMEs associate the term "sustainability" with business efficiency, longevity, and stability of an enterprise over many years, 36% understand that sustainability in business means targeting the triple bottom line, while 16% consider that sustainability means the business is being environmentally responsible or "going green." Only 6% associate sustainability with "higher costs," while a large majority (84%) of respondents think that their businesses must start operating more sustainably and responsibly now, rather than later.[29]

Many MSMEs consider that their contributions to sustainability are in the areas of food quality, food transparency, and adopting ethical business practices. Fewer MSMEs think that their contributions are related to nation-building, being environmentally responsible, and operating efficiently. The relatively high costs of eco-friendly materials (e.g., sustainable packaging) and renewable resources and their inputs (e.g., solar panels) prevent them from completely switching to "going green." However, many are gradually adopting basic sustainable practices that are within their business means such as eliminating or making optional the use of plastic utensils, replacing plastic bags with paper bags, and/or using energy-saving appliances.[30]

There are significant benefits of sustainability in terms of building the company's brand image, building trust from the community, and in capturing new markets. Meeting customer demand is perceived as a strong compelling business case for sustainability. Customers, out of all the stakeholders of an MSME, hold the highest level of interest in the sustainable operations of the company. Adoption of sustainability measures is perceived as most likely to attract and retain more customers than any other possible benefit.[31]

Interestingly, some business owners doubt that sustainability practices help reduce costs. Respondents shared that based on their procurement research for alternative inputs, sustainable materials and resources are more expensive and, therefore, are generally viewed to add to expenses rather than reduce them. Moreover, sustainability practices are not viewed as a significant driver in building good relationships with the government—businesses are expected to comply with the different laws and regulations aligned with sustainability, but compliance does not necessarily mean being on the good side of the government. Most business owners and managers think that the national government has little to no interest in their establishment's sustainability operations (54%) and the same is said of their local government (50%).[32]

The survey also identified the actions that were most feasible for MSMEs to implement and those that were challenging, enumerated in Table 6.

Table 6. Respondents' assessment of sustainability areas

Easiest for MSMEs	Relatively Challenging for MSMEs
• Produce quality food • Practice water and energy efficiency • Manage employees: fair pay, fair response to labor issues, and training opportunities • Provide product information • Participate in community development	• Fully meet regulations • Pay correct taxes • Adopt renewables or eco-friendly materials and equipment • Use organic ingredients

Source: Authors' analysis of survey results.

4.2 Survey on Sustainability with Private Sector Organizations

An online survey of sustainability practices of private sector organizations was sent to organizations registered with the SEC, DTI, or Cooperative Development Authority. Forty-one organizations answered the survey, with key demographic profiles shown in Table 7. The respondents were invited to participate in focus group discussions (FGDs) and do an in-depth validation of the initial survey results in June 2022. Two validation sessions were conducted, one with micro and small enterprises and the second with large corporations and multinational enterprises. The content of Section 4.2 is based solely on the survey and validation session results.

Table 7. Key demographics for the private sector survey respondents (n = 41)

Category	Key Demographics
Size	34% Microenterprise 12% Small enterprise 17% Medium enterprise 22% Large corporation or conglomerate 15% Multinational enterprise
Business Registration	54% SEC – corporation 24% DTI – single proprietorship 22% Other types (e.g., partnership, cooperative) 80% Privately owned 20% Publicly traded

Category	Key Demographics
Ownership	32% 2 to 5 years 12% 6 to 10 years 29% More than 50 years 27% Other responses (less than two years and 11 to 50 years)
Years of Operation	38% Less than 10 17% 10 to 49 10% 250 to 999 21% 1,000 to 4,999 14% 5,000 and above
Number of Employees in the Philippines	43% Nationwide 19% Rest of Luzon 19% Visayas 14% Metro Manila 12% Mindanao
Geographic Coverage[2]	Fully meet regulations Pay correct taxes Adopt renewables or eco-friendly materials and equipment Use organic ingredients

[2] The total is more than 100% because some respondents checked more than one geographic coverage.

Category	Key Demographics
Industries and Sectors[3]	20% Commercial and retail 15% Construction 15% Education 15% Financial and insurance services 15% Manufacturing of fast-moving consumer goods 10% Media and communications 10% Real estate and property development 7% Administrative and support services (non-BPO) 7% Business process outsourcing 7% Professional, legal, and scientific services 7% Transportation, logistics and storage 7% Water utilities, infrastructure, sewerage, and wastewater management 5% Healthcare 5% Manufacture of semiconductors, electronics, and appliances 2% Agriculture, forestry, and fishing 2% Computers, IT, and technology solutions 2% Export and importing services 2% Mining, quarrying, and extractives 2% Telecommunications services

Source: Authors' analysis of survey results and interview transcripts.

4.2.1 SUSTAINABILITY AS A STRATEGY

The top definition of sustainability is ensuring that the company operates ethically and responsibly (74%) and ensuring that stakeholders, such as employees and suppliers, are able to thrive (69%). Sustainability is grounded on the governance that private sector organizations have to exercise and manifest to stakeholders. Companies recognize the importance of meeting economic responsibilities first, but also advocating for the environment and their communities. Contributing to the development of communities and society at large is also key to sustainability for 62% of the companies in the survey. Interestingly, only a little over half of the respondents (55%), mostly the bigger companies, equate sustainability with financial returns and profit maximization, which indicates that for most respondents, sustainable practices need to translate to financial success because it is only through robust financial performance that these initiatives can be sustained. Contributing to environmental protection by changing business practices, however, is only an acceptable definition for 48% of respondents, highlighting that sustainability goes beyond the environment.

[3] The total is more than 100% because respondents were asked to choose up to five industries or sectors.

Sustainability efforts are often led from the top, with either the owner, C-level, or the board (83%) ultimately accountable for results, implying that sustainability is viewed at the strategic enterprise-level. The rest of the companies in the survey are led at the executive (7%) or managerial (10%) levels, focusing on the operational nature of sustainability. The owners' personal values tend to be the driving force of strategy, including sustainability, in MSMEs. Authentic leadership is key because this is a long-term strategy. Sustainability leadership has evolved over time, from the environmental practices of engineers and plant managers to the level of top management and investor relations, resulting in the recognition of the strategic value of sustainability. This implies that sustainability as a strategy should be approached in a holistic level and fully integrated into all aspects of business operations from the strategic plan to risk management and to financial allocations.

Almost two-thirds of surveyed companies (64%) have existing sustainability strategies with clear, focused priorities, but more companies (71%) have set targets or goals for sustainability initiatives. These include all publicly listed companies as SEC requires them to report on sustainability. Microenterprises comprise most of the businesses that neither have sustainability strategies nor targets. Multinational enterprises and large corporations are the prime movers of sustainability, with some firms setting targets before 2015 (19%). More than a third of the survey respondents were new in formalizing sustainability with 36% setting targets only during the COVID-19 pandemic (2019 to 2022).

Some companies have identified key result areas and performance indicators for sustainability. These include:

Environmental Indicators
- Reduced carbon dioxide emissions, carbon footprint, or carbon neutrality
- Solid waste generated
- Water usage and effluent
- Electricity savings generated
- Green product developed
- Reduction in the use of plastics

Social Indicators
- Support for social inclusion through corporate social responsibility (CSR) initiatives
- Community-based projects through various donations
- Health and wellbeing standards
- Increased level of literacy in the community
- Employment generation at host communities
- Community-based microenterprises

Governance Indicators
- Inclusion and exclusion list for project financing (e.g., no coal)

Business and Economic Indicators

- Return on investment
- Accounts receivable from our clients
- Improvements in customer service
- Low cost of materials through efficient supply chain

4.2.2 SUSTAINABLE BUSINESS PRACTICES

Respondents have identified several ways to embed sustainability into day-to-day business operations, starting at the core of the company's business philosophy by including sustainability as part of organizational purpose (57%) and sharing that philosophy through its corporate culture (45%) and training employees in integrating sustainability into their individual workflow (41%). Reviewing the company's business model provides a good opportunity to align sustainability to strategic and synergy planning, resulting in the integration of sustainability into product or service design (43%), marketing (33%), and supply chain management (36%), underscoring the importance for businesses to consider both sustainability in transforming business operations and selling sustainability as part of the product or service.

While leadership is key to any form of strategy, only a third of surveyed companies have identified someone to lead the sustainability efforts of the company. Some have been able to lower their carbon footprint (26%) through resource and operational efficiency. Few companies have been able to realign their financial systems to track performance attributable to sustainability (26%). Although companies are already conscious about the impact of their supply chain activities, very few (24%) actually work to improve their supply chain partners' criteria or metrics in achieving sustainability.

Reduction and more efficient use of resources tend to be the dominant environmental initiatives implemented by survey respondents (see Table 8). Many companies are also conscious about their environmental impact and identifying ways to improve on the company's carbon footprint. These include preventing pollution and decreasing the reliance on plastic products in their supply chain. The more complex mitigation measures such as switching to renewable energy or aiming to be carbon neutral tend to be less popular due to the required resources and organizational capacity to take action. Furthermore, most initiatives to protect ecosystems are part of CSR programs and only very few companies are able to link these initiatives to their own operating ecosystem. Additional initiatives from more advanced companies in their sustainability journey include impact investing and exit from fossil fuel investments. One company is in the process of tagging budget line items allocated to ESG efforts to financially quantify sustainability initiatives.

Table 8. Environmental initiatives of surveyed private sector organizations

Environmental Initiatives	Percent of Respondents
Efficient use, reduction, or alternatives to input materials	57
Efficiency and reduction in energy consumption	57
Perform analyses on possible environmental impact of the company's operations	50
Reduction of water consumption	45
Cleaner production and pollution prevention	41
Reducing the use of plastics in products, packaging, and supply chains	38
Building resilience and business continuity against climate change and natural disasters	33
Infrastructure upgrades	29
Protection of forests, oceans, and other ecosystems	26
Switch to renewable energy (partly or wholly) and minimizing the use of fossil fuels	24
Established a company-wide goal to become carbon neutral by a certain year	24
Carbon offsetting and/or trading programs	17
Flood protection	12

Source: Authors' analysis of survey results and interview transcripts.

Upholding human rights is foundational to any business and it is not just about protecting employees but also engaging the community and supply chain partners. Sustainability efforts should consider the upstream and downstream sides of the supply chain. Since identifying key stakeholders is the starting point for social initiatives, many companies will prioritize stakeholders that they deem to be more important in undertaking their respective social issues [see Table 9]. It is no surprise then that flexible working arrangements (79%) and employee health and safety (64%) top the list of social initiatives from the private sector, given the situation over the last two years. The COVID-19 pandemic also underscored the importance of employee engagement, work-life balance, wellbeing, and inclusion in the workplace. These initiatives provide the means for employees to be productive, ultimately benefiting the company. Data protection and privacy policy has also become a priority due to work from home arrangements. It is interesting that not many companies (24%) have specific policies on human rights in relation to their supply chain since these have been fraught with labor challenges.

Table 9. Social initiatives of surveyed private sector organizations

Social Initiatives	Percent of Respondents
Provision of flexible working arrangements during the COVID-19 pandemic	79
Regular training on employee health and safety	64
Continued provision of flexible working arrangements post-COVID-19 pandemic	60
Employee engagement programs	57
Data protection and privacy policy	57
Policies to promote work-life balance among employees	52
Diversity and inclusion initiatives including equal opportunities	50
Holistic employee wellbeing programs	50
Requires and monitors suppliers in maintaining the same standards	33
Employees can allot company time to volunteer on community projects	31
Platforms for dialogue and consulting stakeholders such as employees, customers, and the community	31
Clear supply chain policies on human rights issues such as child labor and forced labor	24

Source: Authors' analysis of survey results.

Table 10 shows that almost two-thirds of the respondents cite developing codes for business conduct (64%) as their primary governance activity while half maintain a close eye on risk management (52%) and tax issues (50%). Top-level oversight for sustainability is not as common since a portion of respondents are single proprietorships and do not have a board of directors. Only larger corporations and multinational firms engage in public discourse and allocate resources for influencing government policymaking. Since regulatory changes have an impact on political and reputational risks, it is in the best interest of corporations to collaborate on the objectives of their policy development to ensure that the provisions are realistic, feasible, and for the greater good. Policies crafted with national interests in mind will automatically be helpful at the business level.

Table 10. Governance initiatives of surveyed private sector organizations

Governance	Percent of Respondents
Developed codes for business conduct	64
Examines effectiveness of the company's risk management and crisis management practices	52
Clear policy on tax practices and issues	50
Board and C-level oversight for sustainability	43
Well-defined supply chain management policies	41
Measures broader environmental and social impacts with metrics	36
Actively participates and lobbies for public policy reform	29

Source: Authors' analysis of survey results.

4.2.3 REASONS FOR IMPLEMENTING SUSTAINABILITY INITIATIVES

Majority of the respondents indicated 'alignment with corporate goals and strategies' (57%) to be the primary reason for implementing sustainability initiatives [see Table 11], which underscores the strategic value of sustainability. Although MSMEs might be inspired by the actions of larger corporations, they acknowledged that such is too ambitious for them. Sustainability can work for MSMEs when implementing small projects that have a low capital outlay but ensure the long-term viability of the business. Self-regulation and self-policing through industry standards and norms (48%) have become a bigger motivator for sustainability compared to government regulation (33%). However, some respondents view the push from regulators to be a good thing because the Philippines lags behind other countries on this aspect. Many also consider sustainability as a means for reducing exposure to multiple risks (48%) and protecting the company. Although businesses benefit when they have a share of the market that values sustainability, financial reasons are near the bottom of the list, perhaps because most companies are unable to calculate the financial implications of sustainability. Most businesses understand reducing expenses, such as electricity, is one of the more tangible effects of such efforts, but there is still a gap beyond that because there is a need to transform the intangibles into tangible and quantifiable. Moreover, not all actors within a supply chain place the same value on sustainability because only a few are working on meeting their supply chain partners' sustainability expectations (12%).

Table 11. Reasons for implementing sustainability efforts

Reason	Percent of Respondents
Align with corporate goals and strategies	57
Meet industry norms and standards	48
To lower our risk and promote business continuity	48
Businesses should strive to make a positive impact. It's the right thing to do.	43
Customers consider sustainability when choosing to buy or not	36
Attract, motivate, or retain employees	36
Required by the government (e.g., environmental clearance certificate)	33
Improve our operational efficiency	33
Improve our corporate reputation	33
Investors and shareholders consider sustainability in their investment decisions	31
Sustainability gives us an advantage over our competitors	26
Develop new growth opportunities and additional revenue streams	19
Sustainable business operations generate financial returns for the company	17
Meet the expectations of supply chain partners	12

Source: Authors' analysis of survey results and interview transcripts.

More than half of respondents perceive sustainability efforts to generate either a significant (26%) or modest (26%) value for their companies, which can be categorized as either market-related, operational, stakeholder, or financial benefits [see Table 12]. However, some still do not know or understand (29%) whether there is value added from sustainability while the remaining 19% assert no additional value, perhaps because many of the respondents are still at the early stages of concretizing sustainability in their business operations.

Table 12. Benefits from sustainability efforts for private sector organizations

Market	Operations	Stakeholders	Financial
• Develop new markets • Increase market share • Renewal of contracts with clients • Known as a global leader for sustainability	• Activities that negatively impact the socioeconomic wellbeing of communities in the long term • Activities that negatively impact mitigation and adaptation efforts • Activities that negatively impact the other principles	• Strong reputation with stakeholders • Address expectations of international impact investors • Attract and retain talented employees • Stable livelihoods for host communities • Carbon sequestration and increase in biodiversity • Maintain 'social license' to operate	• Financial savings • Revenue growth • Significant financial premium over competitors (e.g., stock price-to-book ratio) • Increase in the valuation metrics of the publicly-listed parent company

Source: Authors' analysis of survey results.

4.2.4 CHALLENGES IN IMPLEMENTING SUSTAINABILITY

Gaps in awareness (31%), capacity, and knowledge on implementing sustainability (45%) remain to be a challenge to the private sector. Sustainability is not clear to many businesses and there is a need to look inward and understand how the company should define sustainability and integrate it to the core business philosophy and model. Furthermore, as the world enters into post COVID-19 recovery, most companies are focusing their strategies on quick wins (41%) rather than long-term investments and allocation of resources for sustainability (36%). Some also cite a lack of support for sustainability from top management or owners (10%), perhaps due to the aforementioned reasons.

There are also instances of incompatibility with their financing mechanisms, with some acknowledging that their current banks cannot finance sustainability related projects (7%). Moreover, companies respond to market trends and demands, and customers are simply not ready to be engaged in sustainability at the moment. The behavioral factor of consumers is crucial and there is room for educating consumers on the value of sustainability. However, there is a need to break down the information to make it easy and fun for the general public to learn.

Companies that are already into sustainability investing find a lack of options for large, high quality impact investment opportunities. There might be less impact to short-term competitiveness as sustainability becomes the norm rather than a unique value proposition for companies leading the shift. Box 1 narrates the experiences of Villa Socorro Farm regarding sustainable finance practices.

Sustainability has become a necessity for businesses during the COVID-19 pandemic. Those that have sustainable practices already in place (48%) assert that these were key to their companies' survival during the last two years. The pandemic also helped businesses realize the importance of integrating sustainability in business operations (33%), with a number identifying ESG efforts to be a key strategy in business recovery (31%) and further increasing their sustainability-related investments over the last two years (21%). Unfortunately, some companies had to reduce their sustainability efforts due to a decrease in profit during the pandemic (24%) while others remained in the status quo (12%).

Box 1. Villa Socorro Farm

Villa Socorro Farm is an 11-hectare family-run agri-social enterprise in Pagsanjan, Laguna. Its business philosophy is anchored on cultivating a holistic farm-based ecosystem with farming, food manufacturing, furniture-making, and tourism. The family initially opened a bed and breakfast in 2008 then pivoted to the farm tourism business. The Farm later opened a manufacturing facility to produce banana chips for export.

Financial sustainability is always the first level of sustainability for an MSME such as Villa Socorro Farm because a small company cannot continue to do business if it is not financially stable. The company initially went into food production to generate more revenue. Raymund Vincent F. Aaron, a fourth-generation farmer, and the 'Banana Chief', wants to change the narrative of Filipino farmers from daily subsistence to thriving through entrepreneurial agriculture.

Villa Socorro Farm had a small area planted with saba bananas, but these were being purchased at a low price at the time. Aaron decided to build a manufacturing facility to produce “sabanana” chips, which sold at a higher price. The social enterprise partners with 220 farmers within the area to supply 98% of their bananas with the belief that the business should also empower communities to thrive in the form of sustainable livelihoods. A fair standard price is used to ensure that farmers have a guaranteed income regardless of market prices. Villa Socorro Farm requires 18,000 bananas per day with production at four days a week. Anecdotal conversations between Aaron and farmers tell the story of how farmers’ lives have improved with a steady income: children are able to finish school, families have enough money to cover more than their basic needs, and some are able to buy tricycles for additional income. Many agricultural plots in Pagsanjan are now planted with banana.

Villa Socorro Farm’s environmental initiatives and vision to achieve zero waste are rooted in the family’s values of trying to promote Filipino products and Filipino traditions. These kinds of efforts always start with the entrepreneur’s intent. Many of the initiatives have been in place since the first day of production: using rice husks purchased from nearby rice mills instead of liquified petroleum gas to fuel furnaces, harvesting rainwater for washing bananas, making fertilizer using banana peels, and recycling containers such as cooking oil cans. A Global Green Growth Institute study rates the company’s green practices to be at Level 3, the highest level of substantial investment in transforming production processes to be more sustainable. The study also calculated significant cost savings and return on investment for these practices, including a 35% internal rate of return for rice hull as fuel.

Going sustainable has allowed Villa Socorro Farm to expand into other lines of business, generating more revenue and employing more people. The company has gone into furniture making from fallen trees under the “Farmniture” brand. It has also partnered with the Department of Science and Technology in “Farmshion” or Farm Fashion, a research and development project on manufacturing industrial and textile fibers from banana pseudo-stems, which are usually just left to rot in the farm.

These practices are also woven into the company’s story, which is printed on product packaging, and shared on its website and social media accounts. Guests can learn about the sustainability efforts when touring the farm. The sustainability-conscious consumer segment is growing in certain markets, especially in Europe, and Aaron has learned to include sustainability in his marketing spiel when selling to these markets.

There are a number of challenges that goes along with Villa Socorro Farm’s success stories, requiring continuous vigilance to achieve the triple bottom line, which requires entrepreneurs to be conscious and deliberate in the decision-making process. Compromise is inevitable and there are always tradeoffs to sustainability. For instance, the banana chips are packaged in foil to comply with food safety laws. Fortunately, 90% of the sales are in developed countries with robust recycling facilities. Government bureaucracy can also hinder entrepreneurial creativity and innovation because regulation can limit pivoting into new business models. Finally, it is difficult to quantify how sustainability affects the financial aspects of the business.

Villa Socorro Farm plans to invest in solar panels in the near future as the next stage of the company’s journey toward a circular economy, which makes sense given the current prices of electricity. Pagsanjan also experiences power outages and production comes to a halt during those instances. Switching to renewable energy reduces the risk of production losses and the energy savings more than make up for the installation costs. The company is looking at financing options and sees bank financing as something to consider.

Source: Authors’ interview with Raymund Vincent F. Aaron, Banana Chief of Villa Socorro Farm.

4.2.5 SUSTAINABILITY REPORTING

Only 48% of companies report their sustainability initiatives and performance, including all publicly-listed companies and some MSMEs. Of those that report, 50% do it annually while the remaining half is split between quarterly (40%) and monthly (10%) reporting. It is interesting to note that only 30% have begun reporting after the SEC required publicly listed companies to start reporting on sustainability in 2019 while the rest have done so even before these regulations were in place. Reporting is a way for companies to be responsive to the preferences and pressures of institutional investors, which are way ahead when it comes to impact investing. GRI remains to be the most popular (25%) standard for sustainability reporting followed by the SASB format (15%). One company (First Philippine Holdings, see Box 2) uses all the different reporting standards plus the UN Guiding Principles on Business and Human Rights to address multistakeholder concerns. The remaining companies either do not know or report on an ad-hoc basis. The biggest challenge for companies is to map out which parts of their operations can be classified as ESG initiatives, which goes beyond featuring CSR initiatives and looking at how ESG is part of core business operations.

MSMEs have a different perspective since these companies are not required by SEC to report on their sustainability initiatives. The general reportorial requirements for MSMEs are not extensive to begin with. MSMEs would rather highlight sustainability as part of product attributes and use it as a marketing tool.

4.2.6 SUSTAINABILITY FINANCING

Sustainable investment and financing is new for most of the respondents. Only 19% invested on financial products that provide environmental, social, and economic benefits, with green bonds and equity in enterprises engaged in high ESG sectors as the most popular type of investment. An even small number (7%) has issued corporate bonds to raise funds for sustainability projects.

The top three reasons, as depicted in Table 13, for accessing sustainable finance is centered on energy related projects. Investments that reduce consumption or promote efficient use of resources are easy to reflect in companies' bottom lines, translating to cost savings.

Table 13. Range of projects that need access to sustainable finance

Reasons for Accessing Financing	**Percent of Respondents**
Refurbishment or renovation of properties to make them more energy efficient	12
Development and use of technologies that reduce energy consumption and resource use	12
Shifting to renewable energy	10

Reasons for Accessing Financing	Percent of Respondents
Wastewater treatment, water management and efficiency, or sustainable urban drainage systems	10
Business financing for MSMEs	10
Affordable housing, healthcare, and other services for underserved populations	10
Loans to minority, underserved, and low-income individuals	10
Pollution prevention and control including waste management and recycling projects	7

Source: Authors' analysis of survey results.

Table 14 shows that investing in green, social, or sustainable bonds (14%) is the most accessed sustainable finance product, followed by loans for SMEs (12%). Only one of the surveyed companies have gone into carbon credits or trading.

Table 14. Type of sustainable finance product accessed by survey respondents

Sustainable Finance Product	Percent of Respondents
Institutional investments in bank-issued green, social, or sustainable bond	14
Financing for MSMEs	12
Issuance of our own corporate green, social, or sustainable bond	10
Financing through a green, social, or sustainable loan	7
COVID-19 related financing	7
Financing under the Agri-Agra Law	5
Carbon credits or trading	2

Source: Authors' analysis of survey results.

Majority of the surveyed companies (57%) are not aware that banks are now required to allocate a portion of their portfolio to finance these kinds of projects [see Table 15]. The lack of awareness on available sustainable financing from the banks (33%) seems to be a recurring theme among private sector respondents, perhaps because this is a new development in the financial sector and not all banks have these products (14%). Many companies are not in the position to explore sustainability because their focus is on generating working capital for day-to-day operations (14%) while others look at sustainability as mere CSR and not an integral part of business operations (14%). There are transitional costs when companies are transforming their operations and these should be considered when banks offer sustainable finance products. For instance, agribusiness companies will require a longer term because it takes time to switch to organic farming. The requirements for applying for a loan is also another bottleneck: there are either too many (7%) or the business does not have the capacity to comply with the additional conditions (14%) unique to sustainable finance such as identification of ESG risks.

Table 15. Challenges in accessing sustainable financing for the private sector

Top Challenges	Percent of Respondents
We are not aware that banks offer sustainable financing	33
Our bank currently does not offer these kinds of products and services	14
We do not have the knowledge or capacity to comply with the bank's application requirements (e.g., environmental risk analysis)	14
Our environmental and social initiatives are for CSR, and thus, funded by the company	14
We are focused on recovery and generating working capital for day-to-day operations.	14
There are too many requirements, making it difficult to get approval	7

Source: Authors' analysis of survey results.

On a positive note, companies do expect financing several sustainability related projects within the medium term [see Table 16]. Energy-related projects as well as business financing for MSMEs continue to be the most popular projects considered by companies over the next two to five years. Other infrastructure and capital-intensive projects such as switching to cleaner transportation and green construction are gaining interest in the private sector. While companies are looking at sustainable land use projects, interest in financing biodiversity and other natural assets will continue to remain low. Box 2 narrates the experiences of a major conglomerate regarding sustainable finance practices.

Table 16. Financing needs for private sector respondents over the medium-term

Top Challenges	Percent of Respondents
Development and use of technologies that reduce energy consumption and resource use	45
Business financing for MSMEs	36
Refurbishment or renovation of properties to make them more energy efficient	36
Shifting to renewable energy	31
Wastewater treatment, water management and efficiency, or sustainable urban drainage systems	29
Purchasing greener and cleaner transportation (e.g., electric vehicles)	24
Construction or renovation of green buildings and its corresponding certification	21
Pollution prevention and control including waste management and recycling projects	21
Sustainable land use	21
Loans to minority, underserved, and low-income individuals	14
Financing for those disadvantaged by natural hazards such as COVID-19 and natural disasters	10
Affordable housing, healthcare, and other services for underserved populations	10
Financing natural assets such as reforestation, mangroves, and coral reefs	10
Projects compliant with the Agri-Agra Law	7
None of these	21

Source: Authors' analysis of survey results.

Box 2. First Philippine Holdings and Energy Development Corporation

First Philippine Holdings Corporation (FPH) is a publicly-listed company with business interests in power generation, energy solutions, real estate development, construction, education, and healthcare. FPH recognizes the need for the business to align the organization, their internal resources and capabilities toward a mission that seeks to elevate other stakeholders as well. The FPH mission statement embodies this philosophy: “We [FPH] commit to forging collaborative pathways for a decarbonized and regenerative future.”

The company crafted its sustainability policies and accompanying guidelines in 2018 to help FPH leaders and employees in fulfilling their obligation to both internal and external stakeholders following five environmental and social safeguards principles: (1) environment, safety, and health, (2) human rights, (3) gender equality and diversity, (4) cultural heritage and indigenous peoples, and (5) responsible asset protection. FPH’s 2021 Integrated Report also identifies its materiality across economic and ESG themes.

The design of FPH’s sustainability plan begins with risk identification and management, identifying materiality and the different ESG themes that matter to the different business segments and their stakeholders. Sustainability means value creation, not just for the enterprise, but for others as well. By protecting and helping the different stakeholders regenerate, it provides the company a social license to operate and amplify decarbonization efforts upstream and downstream as well as restore habitats it is nested in, which will ultimately result in a positive impact to the financial performance of FPH.

On a regular basis, the Chief Sustainability Officer reports the status of the sustainability programs to the FPH chairman, FPH president, as well as the presidents of the different subsidiaries to ensure that the sustainability efforts align with the different business operations. These strategies are then validated by the different subsidiary management committees as each subsidiary has its own pathway toward decarbonization. FPH then identifies common targets for the entire conglomerate, but differentiated due to the nuances in the nature of business activities for each subsidiary.

FPH uses various forms of capital as the inputs for measuring, tracking, and reporting sustainability performance: financial, manufactured, natural, human, intellectual and social. The company’s value creation model identifies the different outcomes, including contribution to the SDGs. The different business activities have so far contributed to 14 out of the 17 SDGs. FPH uses all the accepted SEC standards and frameworks for sustainability reporting (GRI, SASB, TCFD, and Value Reporting Foundation) plus the UN Guiding Principles on Business and Human

Rights to cover everything that is material to investors and across different implementation time horizons (short, medium, and long term). FPH continues to monitor evolving best practices, technologies and tools to improve its operations.

Even with its choice to follow the regeneration path which is a higher form of sustainability, FPH is still able to enjoy steady revenue and RNI growth as shown by its consolidated revenues of PHP125.2 billion in 2021, an increase of almost 16.7% from the previous year, including record-high revenues from business segments in construction and energy services, energy solutions, and significant recovery of the real estate segment's operating results, which is notable because these happened during the pandemic. Furthermore, FPH has been able to build its attributable recurring net income at a compounded annual growth rate of 12.6 % over the past 10 years. FPH, as a publicly listed corporation, has also attracted more foreign institutional investors, which are advanced in terms of impact investing.

FPH uses a number of strategies for financing its decarbonization and growth projects, including sustainable finance, which allows the company to raise capital while pursuing its mission. Energy Development Corporation (EDC), an FPH subsidiary and provider of 19% of the country's total installed renewable energy capacity, launched the group's maiden green bond framework in March 2021. The framework aims to finance or refinance new and existing renewable energy projects such as geothermal energy, which is considered as an eligible green project that provides cleaner and reliable power. Sustainalytics reviewed and provided the Second Party Opinion (SPO), confirming that the framework is aligned with the International Capital Market Association 2018 Green Bond Principles.

EDC issued the first tranche of SEC-registered ASEAN green bonds, worth PHP 5 billion out of the total PHP 15 billion shelf registration, on June 25, 2021. The first tranche was more than ten times oversubscribed from its base offer size. The bonds were rated PRS Aaa by PhilRatings and were priced at the lowest end of the range at 2.8565% for the three-year tenor and 3.7305% for the five-year tenor. BDO Capital & Investment Corporation and BPI Capital Corporation, the investment banking subsidiaries of two of the biggest Philippine banks, BDO Capital & Investment Corporation and BPI Capital Corporation acted as joint issue managers, joint lead underwriters and bookrunners, with SB Capital Investment Corporation as the co-lead underwriter for the transaction. The bond was awarded by The Asset as the best local currency green bond in the Triple A Country Awards 2021 Best Southeast Asian deals category for sustainable finance2.

According to the EDC Corporate Treasury, the benefits in issuing a green bond include:

- Allows the issuer to demonstrate its commitment to solving environmental issues.
- Allows the issuer to broaden its investor base with a new investor class. There are a number of funds/financial institutions/investors that are committed to ESG mandates and are classified as Socially Responsible Investors, thus the clean and decarbonization aspect greatly appeals to them.

- Allows the issuer to determine the pool of eligible assets and projects to be funded for more flexibility—proceeds can be used for greenfield or brownfield projects, as well as refinancing or recycling of capital subject to a certain look-back period, as long as the projects funded follow the eligibility criteria for the Use of Proceeds.
- The process is similar to issuing traditional bonds with the additional step of the Green Bond Framework issuance and SPO requirement.
- The issuer can raise sizeable competitive financing without being limited by the Single Borrower's Limit imposed by the BSP on Philippine commercial banks.

EDC also experienced a number of challenges during the process such as:

- Additional steps are required, particularly the creation of a Green Bond Framework, the SPO, and approvals by the regulator. There are also additional disclosure requirements post-issuance.
- The tenor and pricing are still similar to that of an unlabeled bond in the Philippine and most Southeast Asian capital markets, although it would be more attractive for developer-issuers if there is a rate discount or improvement in pricing or "greenium" for being "green."
- A corporate bond issuance, compared to financing obtained from banks and other financial institutions, generally takes longer to complete as it entails more work in terms of the writing of the prospectus, more comprehensive due diligence, credit rating requirements, negotiating documentation, as well as securing regulatory approvals.
- Tapping the capital markets via bond issuance requires a certain transaction size or threshold to make business sense, which means following the rule of thumb of USD 300 million or PHP 3 billion in the preferred currency for bonds. This size is possible for bigger renewable energy projects or developers, but may not be feasible for smaller companies raising funds for their projects.

Source: Validation session with FPH, authors' email correspondence with FPH, and FPH website and integrated reports.

5. THE SUPPLY OF SUSTAINABLE FINANCE IN THE PHILIPPINES

The banking system in the Philippines is made up of several banks with differing nature of business as provided in the General Banking Law of 2000. Commercial banks are granted powers to carry commercial banking activities, while universal banks are commercial banks with additional functionalities of an investment house. Thrift banks mainly provide savings related services while rural banks are established to serve rural areas as a vehicle for comprehensive rural development. Cooperative banks are similar to rural banks but have the specific purpose of providing banking services to cooperatives and their members.[33] The BSP does not currently track sustainable finance as part of its financial industry surveillance since its full implementation is still in 2023

Bank classification is primarily based on minimum capitalization, which varies based on the number of branches and geographic location of the head office according to BSP Circular No. 854 Series of 2014.[34]

- Universal banks: PHP 3 billion
- Commercial banks: PHP 2 billion
- Thrift banks with a head office
    - In the National Capital Region (NCR): PHP 500 million
    - Outside the NCR: PHP 200 million
- Rural and cooperative banks with a head office
    - In the NCR: PHP 50 million
    - Cities and 1st to 3rd class municipalities outside the NCR: PHP 20 million
    - 4th to 6th class municipalities outside the NCR: PHP 10 million

However, this capitalization structure will change in the near future as the BSP approved Memorandum No. M-2022-024 on the Rural Bank Strengthening Program (RBSP). The RBSP uses a four-pronged approach to enhance the competitiveness of rural banks in the country: (1) strengthened capital base, (2) holistic menu of five time-bound tracks, (3) incentives and capacity building interventions, and (4) review and enhancement of existing regulations.[35] A draft circular is currently being circulated on the increase in minimum capitalization of rural banks to PHP 60 million for up to five branches, and PHP 200 million for more than five branches, regardless of head office location.[36]

There are 494 bank and non-bank financial institutions listed, as of July 2022, with the BSP: 20 universal banks, 25 commercial banks, 43 thrift banks, 24 cooperative banks, and 382 rural banks.[37] The RBSP will have major implications within the banking system given that most banks are classified as rural banks and many are still recovering from the COVID-19 pandemic.[38]

In terms of portfolio, universal banks account for PHP 132.93 billion or 87% of the total loans of the Philippine banking system. The loan exposures vary per type of bank with real estate activities (22%) the dominant sector for universal banks; real estate activities (18%) and manufacturing (18%) for commercial banks; salary loans (21%), motor vehicle loans (21%) and real estate activities (19%) for thrift banks; salary loans (36%) for rural banks; and agriculture, forestry, and fishing (25%), and wholesale and retail trade (21%) for cooperative banks. Figure 3 illustrates the production and consumption loan activity of the entire Philippine banking system as of 31 May 2022.[39]

Loan Type	Percent Share to Total
Real Estate Activities	20.56%
Wholesale & Retail Trade, Repair of MV & Motorcycles	12.00%
Manufacturing	11.36%
Electricity, Gas, Steam & AC Supply	10.46%
Financial & Insurance Activities	9.32%
Information & Communication	5.33%
Credit Cards	4.65%
Construction	4.07%
Motor Vehicle Loans	4.04%
Transportation & Storage	3.25%
Salary Loans	2.94%
Agriculture, Forestry & Fishing	2.29%
Arts, Entertainment & Recreation	1.52%
Public Administration & Defense; Compulsory Social Security	1.52%
Accommodation & Food Service Activities	1.41%
Water Supply, Sewerage, Waste Mgt & Remediation Activities	1.16%
Human Health & Social Work Activities	0.91%
Other Service Activities	0.84%
Activities of Households as Employers	0.66%
Mining & Quarrying	0.39%
Administrative & Support Service Activities	0.36%
Education	0.35%
Professional, Scientific & Tecnical Activities	0.35%
Other Consumer Loans	0.27%

Figure 3. Production and consumption loans of the Philippine banking system

Source: BSP (2022)

Only certain types of banks are allowed to issue bonds and commercial papers that comply with Republic Act No. 8799 or the Securities Regulation Code and its implementing rules and regulations, including those issued by the SEC.[40] In practice, only universal banks and commercial banks issue bonds as debt instruments. However, the BSP allows smaller banks to purchase bonds issued by government banks or invest in infrastructure or purchase stocks in rural financial institutions as a means or complying with Agri-Agra Law requirements for banks.[41] This implies that thrift banks, cooperative banks, and rural banks are unable to issue bonds as debt instruments, limiting their ability to raise funds, and increasing their reliance on depository accounts. Thus, smaller banks are unable to finance capital-intensive projects that their clients may want to implement, which implies that their existing clients will have to turn to commercial banks for larger loans.

6. BANKERS' PERSPECTIVES ON SUSTAINABLE FINANCE

6.1 Account Officer Survey

Forty-four account officers from different banks participated in a survey in February 2021 to assess their level of awareness and knowledge on sustainable finance, loan portfolio assessment, and the implementation of sustainable finance. The survey indicated that 64% of the respondents are in the middle to upper tier on their familiarity with sustainable finance, although only 45% of them know about BSP Circular 1085. When asked about avenues for learning sustainable finance, majority of the account officers preferred to attend a combination of external (61%) and in-house (80%) training sessions and seminars. Most of them (98%) were willing to push sustainable products and services and 86% were amenable to including sustainable finance targets in their yearly performance appraisal.[4]

The sustainable finance portfolio analysis indicated that sustainable finance is most common in three industries: real estate (43%), construction (41%), and manufacturing (34%), with 61% of loan officers believing that their main borrowers could produce potentially negative impacts on the environment. While all respondents agreed that the borrowers' environmental and social initiatives should bear weight alongside the 5Cs (capacity, capital, collateral, conditions, character) of credit, only 64% wanted to implement environmental and social initiatives with borrowers that may have detrimental impacts on the environment. Most (77%) were confident that the finance sector would be able to implement sustainability metrics if all borrowers were assessed as such while almost all (96%) were likely to recommend embedding social and environmental metrics as tools for assessment in the risk rating.[5]

6.2 Bank Survey and Validation Sessions

An online survey of current sustainable banking practices was sent to banks and non-bank financial institutions in May 2022 using a directory provided by the BSP. Forty-five institutions answered the survey, with respondents ranging from CEOs, presidents, vice presidents, risk managers, and chief compliance officers. A summary of key bank profiles is shown on Table 17. The survey covered the current state of development of the sustainable finance framework, performance of sustainable finance products, and the opportunities and challenges in implementing sustainable finance. The respondents were invited to participate in FGDs and do an in-depth validation of the initial survey

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[4] Larobis, R. (2021). Operationalization of sustainable finance in Philippine banking: An industry conduit of ESG implementation. Unpublished capstone paper for Executive Master in Business Administration. Asian Institute of Management, Makati City, Philippines.

[5] Ibid.

results in June 2022. Four validation sessions were conducted, one with cooperative and thrift banks, and three sessions with rural banks. The entire content of Section 6.2 is based on the survey and validation session results.

Table 17. Key profiles of respondent banks (n = 45)

Category	Key Demographics
Bank Classification	78% Rural banks 9% Cooperative bank 7% Thrift banks 2% Commercial banks 2% Universal banks 2% Government bank
Years of Operation	49% 25 to 49 years 40% 50 to 74 years 11% Other responses
Number of Branches	36% Single facility (no branch) 33% 1 to 5 branches 9% 11 to 25 branches 9% 26 to 100 branches 7% 6 to 10 branches 4% 101 to 500 branches 2% 501 to 1,000 branches
Geographic Coverage[6]	58% Rest of Luzon 16% Visayas 13% Mindanao 13% Nationwide 9% Metro Manila

Source: Authors' analysis of survey results.

6.2.1 STATE OF SUSTAINABLE FINANCE IMPLEMENTATION

The respondent banks are currently in differing stages of the development and implementation of the sustainable finance framework, with 13% using their respective framework and offering sustainable financing to their clients [see Figure 4]. Most banks are still developing their framework (40%) or are still at the beginning stages of development (36%). The state of readiness is not totally dependent on the bank classification: some rural banks are already offering sustainable finance products to their clients while the majority are still in the beginning stages of developing their sustainable finance

[6] The total is more than 100% because some respondents checked more than one geographic coverage.

frameworks. The same pattern is observed among cooperative banks and thrift banks. A few banks have been derailed due to the changes in their leadership structure such as a new board of directors or bank executives, who have to be onboarded on bank operations.

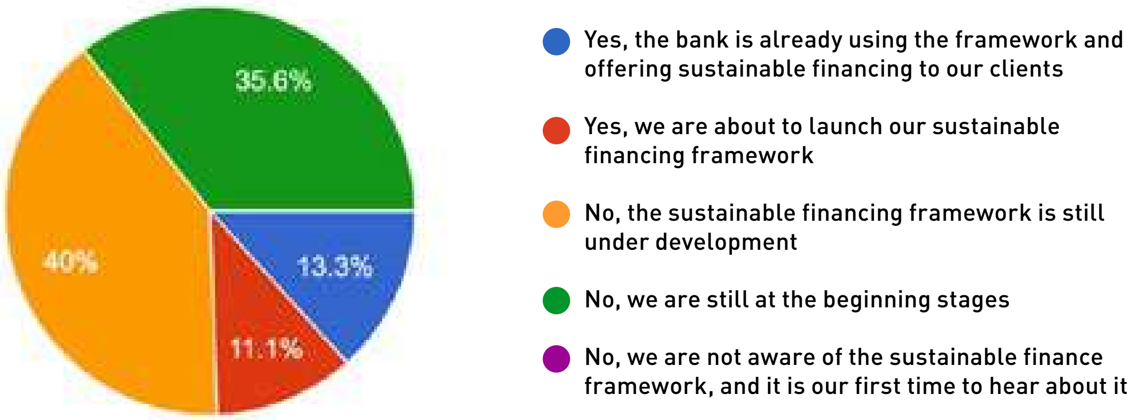

Figure 4. State of sustainable finance among the banks

Source: Authors' analysis of survey results.

Many banks initially focused on initiating small ESG projects such as finding ways to reduce energy use and transitioning to paperless operations, but it was much easier to improve internal business practices compared to developing their sustainable finance frameworks. Many banks lack the resources to hire consultants and rely on the management committee to oversee the transition.

Only one commercial bank, among the respondents that already have sustainable finance frameworks, has indicated issuing one to five green, social, or sustainable bonds over the last five years. As mentioned earlier, thrift, cooperative, and rural banks rely on depository accounts and do not issue debt instruments such as bonds to raise funds for their portfolio, but they are allowed to invest in marketable funds as well as debt instruments issued by other banks without BSP approval. Several respondent banks have purchased government issued securities and bonds, but none have invested in green, social, or sustainable bonds. One rural bank has purchased government issued bonds for Agri-Agra Law compliance. Box 3 narrates the experiences of one rural bank regarding sustainable finance practices.

Box 3. The New Rural Bank of San Leonardo

The New Rural Bank of San Leonardo (NRBSL) is a rural bank located in the agricultural heartland of Nueva Ecija with a network of 24 full-service branches across five provinces of Central Luzon. Established in 1994 by a group of development workers from various disciplines, NRBSL pioneered the modern-day microfinance operations in the province through its various programs and services small farming communities through on-boarding with the government's credit program, helping in the transformation of microenterprises into SME status. NRBSL has integrated supply chain stakeholders and processes in its financing framework as an Agri-Agra Law financial institution, which helps agricultural producers and rural entrepreneurs access affordable resources in the market and benefit from fair trade, thus adding value to their commodities and increasing their competitiveness.

NRBSL was one of the banks that assisted the Agricultural Credit and Policy Council in the disbursal of PHP 315 million in loans for 5,475 small farmers and agri-entrepreneurs and served over 170,000 beneficiaries of the government's social amelioration program in the second half of 2020 through on-boarding with co-branding digital payment platforms of partner universal banks.

NRBSL is currently transitioning to sustainable finance for its environment and social objectives and participates in the BSP's pilot project on Vulnerability Assessment using HazardHunterPH geo-risk tool under the Sustainable Finance Framework. NRBSL is also a member of the Association of Development Financing Institutions in Asia and the Pacific and has started the process of developing its Sustainability Reporting as an important reference material in its transition to sustainable finance. From the initial observations, the strategic shift is not expected to require a complete overhaul of NRBSL because its business model is already aligned to serving the needs of the agricultural sector, which are vulnerable to climate change. NRBSL has drafted its transition plan template, which was acknowledged by the BSP during NRBSL's last general examination.

NRBSL is one of the six pilot banks to participate in the Agriculture Supply Chain Financing Framework, a joint project of the BSP and the Asian Development Bank. The project aims to mitigate credit risks in the agricultural sector by transferring the exposure from a single farmer-borrower to the different actors in the agricultural value chain. NRBSL is packaging its loan products to include the different aspects of ESG, primarily geophysical hazards, along the value chain. NRBSL aims to finance farming technology that will help farmers discontinue their unsustainable farming practices. The supply chain ecosystem approach helps harmonize the interest of various actors and aids in the loan recovery of NRBSL, which is already practicing value chain financing in kalamansi and palay and is keen on applying the same methodology in sugarcane and onion. including the alternative adlai rice, an heirloom grain, in the future.

Source: Validation session with NRBSL and its website.

The majority of banks identify serving the financing needs of MSMEs (82%) and financing the transition toward low-carbon transportation (55%) as key components of their eligible projects [see Table 18]. Banks prefer to include familiar projects because they do not want exposure to elevated risks due to the lack of operational knowledge. Banks are essentially repackaging 'bread and butter' portfolios into sustainable finance by integrating geophysical hazards to understand ESG vulnerabilities and harmonize the interests of various actors in the agriculture supply chain. Environmental clearance from the local government units has also been added to the application requirements.

Financing MSMEs alongside traditional agriculture financing helps diversify the credit risks of rural banks. While banks are hoping to convince MSMEs to implement projects that result in ESG performance improvements, these businesses often require financing for regular working capital and capital expenditure. Moreover, MSMEs are currently shying away from large-scale projects because many are still in survival or recovery mode from the COVID-19 pandemic. Smaller banks are also unable to finance capital-intensive projects.

Bigger banks or those with more branches tend to have a more complex framework with more eligible projects. Smaller banks tend to focus on niche segments that mirror the needs of their existing market. For instance, rural and cooperative banks tend to favor Agri-Agra Law projects because these projects do not require a major overhaul in the transition to sustainable finance and allow the banks to remain true to their mandates. Most of the other categories of eligible projects are new to thrift, cooperative, and rural banks. For instance, interest in financing solar panels in rural areas is slowly growing, but these tend to be one-off applications, not enough to be considered a market segment for rural banks.

Only one bank so far, a commercial bank, has indicated that it will allow financing of the protection, rehabilitation, or restoration of natural assets such as forests, mangroves, or coral reefs. The financing required for natural assets tends to be out of range of most rural and thrift banks.

Universal and commercial banks will often have an exclusion list as part of their respective sustainable finance frameworks. Certain projects such as fossil fuel and gambling are excluded to prevent greenwashing. Smaller banks have difficulty developing an exclusion list because this would have a larger impact on their smaller portfolios. Their income margins could be impaired if smaller banks just financed projects that are deemed sustainable. Repayment capacity, regardless of the type of project being financed, is the primary criteria for approving the loan.

Table 18. Eligible projects identified in sustainable finance frameworks

Eligible Projects	Percent of Respondents
Business financing for MSMEs	82
Clean transportation	55

Eligible Projects	Percent of Respondents
Pollution prevention and control including waste management and recycling projects	46
Projects compliant with the Agri-Agra Law	46
Refurbishment or renovation of properties to make them more energy efficient	36
Wastewater treatment, water management and efficiency, or sustainable urban drainage systems	36
Shift to renewable energy	27
Development and use of technologies that reduce energy consumption and resource use	27
Affordable housing, healthcare, and other services for underserved populations	27
Loans to minority, underserved, and low-income individuals	27
Construction or renovation of green buildings and its corresponding certification	18
Sustainable land use	18
Financing for those disadvantaged by natural hazards such as COVID-19 and natural disasters	18
Financing natural assets such as reforestation, mangroves, and coral reefs	9

Source: Authors' analysis of survey results.

The results are mixed in terms of the current portfolio allocated to sustainable financing [see Figures 5 and 6] and are dependent on the bank classification. Bigger financial institutions, such as universal and commercial banks, have more resources and a larger portfolio size compared to the smaller institutions. Rural banks generally allocate less than PHP 25 million while cooperative banks and thrift banks can earmark PHP 500 to PHP 999 million for sustainable financing. Only one commercial bank indicated more than PHP 1 billion allocation for eligible projects.

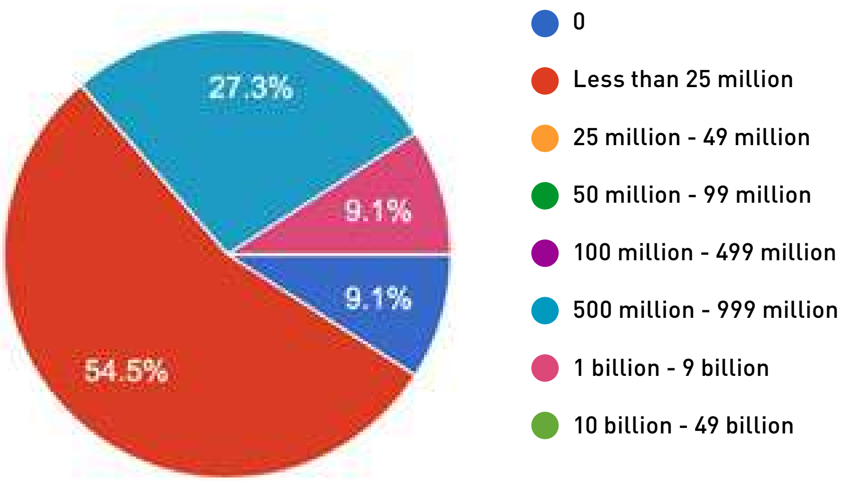

Figure 5. Size of respondent bank's sustainable finance portfolio in PHP

Source: Authors' analysis of survey results and interview transcripts.

A few cooperative and thrift banks have as much as 75% of their portfolio identified as sustainable financing while rural banks cover a much wider spread, anywhere from a fraction of a percentage to more than half of their portfolio. While a commercial bank has the largest allocation in terms of absolute peso value, sustainable financing only represents 1% to 4% of the commercial bank's total portfolio, implying that other types of financing are still the 'bread and butter' for bigger banks. The broad range of portfolio allocation corroborates the differences in the level of implementation of sustainable finance within the financial and banking sector.

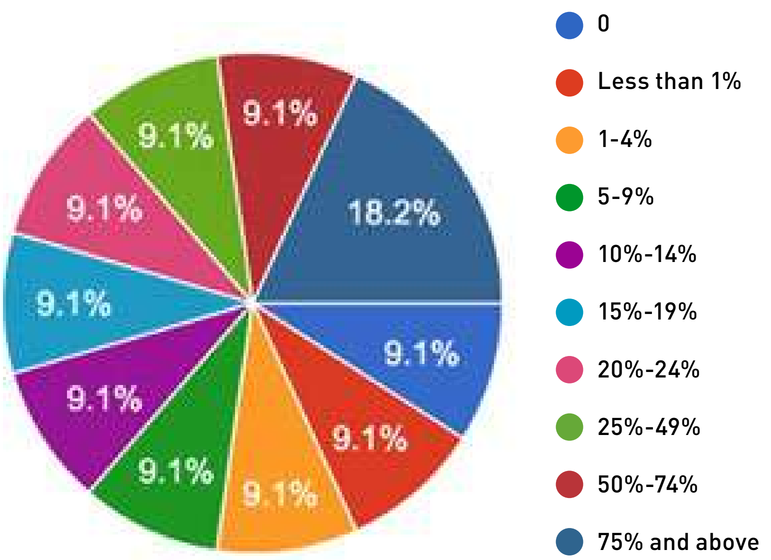

Figure 6. Percentage of respondent bank's total portfolio allocated to sustainable finance

Source: Authors' analysis of survey results.

6.2.2 ASSESSMENT OF MARKET ATTRACTIVENESS

With regard to the demand for sustainable financing with the transformation of the financial sector, some banks indicate a growing attractiveness for this kind of product because it matches the profile and the needs of their target sectors, as indicated in Figure 7. Furthermore, positive experiences from clients implementing sustainable initiatives have made sustainable finance more acceptable. However, many bank clients still have a limited knowledge on sustainable finance, especially in rural areas. Awareness for some is still low because the Philippine roadmap for sustainable finance was only released in late 2021 and the banks need more time to market it.

There is still a need to expand the current market to capture the sectors that would need this kind of financing. The private sector is focusing on recovery and the mindset is to cut costs and increase productivity in order to survive. Consumer education, therefore, will be key to aligning ESG factors to business operations. This will help increase the demand for sustainable finance, given that financing for MSMEs is included in most sustainable finance frameworks.

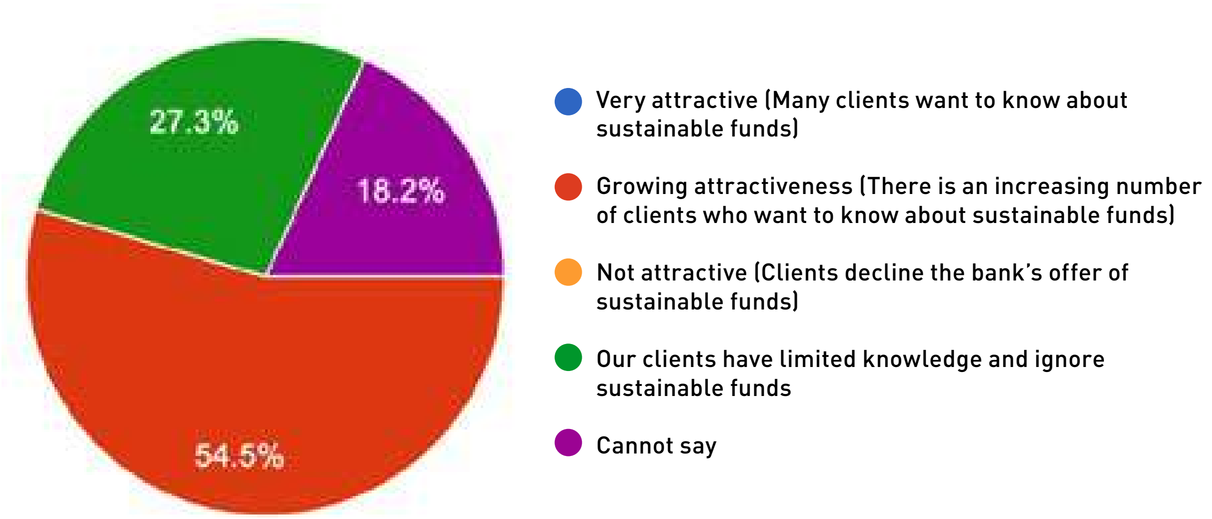

Figure 7. Assessment of market attractiveness for sustainable finance

Source: Authors' analysis of survey results.

6.2.3 CHALLENGES IN IMPLEMENTING SUSTAINABLE FINANCE

Banks are facing a plethora of challenges in relation to the implementation of their sustainable finance frameworks, which varies depending on their stage in the transition process. Issues are disaggregated by the existence or absence of sustainable finance frameworks as described in Tables 19 and 20. On one hand, banks with existing frameworks find issues with the operationalization of the framework and selling the corresponding product to their existing markets. Banks that are still developing their frameworks, on the other hand, are stymied on where to begin due to their lack of capacity and resources to implement sustainable finance.

Table 19. Challenges experienced by banks with sustainable finance frameworks

Bank Classification	Challenges
Universal or Commercial Banks	• Still in the early stages to determine problematic issues.
Cooperative, Thrift, or Rural Banks	• Understanding on how to operationalize and launch the sustainable finance framework. • Measurement of credit risks including the climate change risks in stress test analysis as well as overall impact in the bank's financial performance. • Manpower with technical expertise and experience in credit evaluation who are able to correlate with ESG factors. • Difficulty applying the framework and mitigating the risk to the bank's niche markets, which are smallholder farmers and MSMEs. These are considered to be high risk and the most vulnerable to the threats of climate change. • Sustainable finance is not interesting for the clients of rural banks: a tradeoff between long-term sustainable investment and immediate gains or profits of individual borrowers. They are unable to link ESG initiatives with increasing production yields.

Source: Authors' analysis of survey results and interview transcripts.

Table 20. Challenges experienced by banks still developing sustainable finance frameworks

Bank Classification	Challenges
Universal or Commercial Banks	• Building the framework and bringing sustainability as part of the business as usual of the bank is a big effort that requires experienced bankers and staff. To overcome the challenges, the banks rely on extensive training for those directly supporting in building the framework, taking a lot of time and resources away from the regular work of the bank officers and staff.
Cooperative, Thrift, or Rural Banks	• Banks do not know where to begin and are still trying to understand which elements of sustainable finance are relevant to their activities. • The lack of knowledge, especially on environmental and social risks, results in difficulty drafting policies and procedures. There is a disconnect as to how to go about tailor-fitting the material ESG issues of the bank and its clients. • Lack of training and skilled human resource to lead the bank's sustainable finance portfolio. Only very few people were able to attend the webinars. • Including environmental and social risks related to borrower's credit risk rating. • How to evaluate and reclassify the current portfolio into a sustainable finance portfolio. How to monitor and track the implementation of the sustainable finance framework over the long term. • Challenging to sell sustainable loan products due to unique requirements for inclusion and approval. Pressure to meet deadlines may result in lending to unfamiliar segments. • Difficulty in reaching target markets. The businesses currently served by the banks are not anchored on sustainability. Majority of the bank's clients are farmers and entrepreneurs operating small businesses who do not have technical knowledge on sustainable finance. • Considered to be a burden because the BSP releases so many circulars for compliance. Rural banks have simple banking operations with limited personnel.

Source: Authors' analysis of survey results and interview transcripts.

6.2.4 OPPORTUNITIES IN SUSTAINABLE FINANCE

Most of the banks agree that it is still too early to tell whether sustainable finance investment products are resilient and outperform traditional investment products (82%) and whether sustainable loans outperform traditional loan products in terms of repayment capacity (73%). This is a fair assessment considering that the BSP is still giving the banking sector until 2023 to develop and implement their sustainable finance frameworks.

Banks consider sustainable finance as the financial sector's contribution toward driving socioeconomic development. Helping clients create more employment opportunities while reinforcing social and environmental protection is one way to achieve sustainable development. There is optimism regarding the opportunities from sustainable finance, which can be a mechanism for expanding loan portfolios with built-in social and environmental safeguards alongside the financial ones. Integrating sustainability considerations into a bank's credit underwriting methodology will ultimately help improve its portfolio quality. Furthermore, banks are able to tap new markets since some existing bank products are already oversaturated or overexposed.

Rural banks also see possible growth in emerging markets in rural but progressive areas due to compliance with Agri-Agra Law requirements. Renewable energy is a promising venture since there are large swathes of land in rural locations for solar farms. Sustainable finance ensures consistent healthy returns for the banks and benefits the community at the same time. Promoting the clear benefits for project proponents will open up new business for the bank. Rural banks, cooperative banks, and thrift banks are poised to be able to reclassify their current Agri-Agra portfolio under sustainable finance. This is a space wherein smaller banks can thrive compared to universal and commercial banks that would rather pay the penalties for their failure to comply with Agri-Agra Law requirements. Smaller banks also cannot afford the penalties for non-compliance and need to look for alternative means for compliance to the Agri-Agra Law.

The interviewees acknowledged that Agri-Agra financing can be a very lucrative portfolio for smaller banks because it is their main target market, since bigger banks use an intermediary and do not provide direct loans to farmers and fisherfolk. A bank's geographic location in a less urbanized area allows the bank to have more knowledge on what is going on in these communities and on products that serve this market, such as crop insurance. Rural banks adjust their financing to the agricultural cycle and align it to different activities such as planting and harvesting. Farmers moving toward value-added production represent the market segment with the most potential since they require financing to go into food production to maximize the land and add new revenue streams.

Sustainable finance also provides new prospects for rural and cooperative banks that no longer have Agri-Agra clients to serve (e.g., urbanization has transformed many agricultural lands into subdivisions and other developments). The college-educated children of farmers may no longer desire to engage in agriculture and eventually sell the land. Some agrarian reform beneficiaries have restrictions on their land titles, however, preventing these to be used as collateral for loans. One rural bank has plans to tap the healthcare sector as well as recycling in companies.

There is a growing attention on issues such as climate change, disaster risk management, and responsible consumption, which are also highlighted on social media. Banks can help develop the market for sustainable finance by educating their consumers on these issues. For instance, cooperatives are stockholders of cooperative banks, and can deliver training programs for improving farming skillsets. Bank customers are also encouraged to become cooperative members and enjoy the benefits of membership.

6.2.5 NEEDED INCENTIVES AND SUPPORT

Majority of the banks (78%) identify the need for incentives or support to drive sustainable finance forward. Banks are good and effective champions of change and these incentives will allow banks to be fully invested in sustainable finance. These banks can work with more economic actors to make them more aware of the sustainability issues and influence the way the economy works by increasing financing to businesses, as well as investments, with good ESG ratings. Regulatory relief can encourage the banks to absorb more risk in financing unfamiliar sustainable projects, including lending to the unbanked and underserved sectors. There is a clamor for the extension of timelines for the full implementation of sustainable finance so that more banks can participate.

The following are some of the incentives and support that may be provided to banks to help them implement sustainable finance.

Monetary Incentives

- Interest free funding to diversify the loan portfolio and decrease the pass-on rate
- Grants and guarantee from the government
- Classify sustainable finance as a 'zero risk' account and implement rediscounting
- Access to low-cost funds and longer repayment periods
- Initially excluding sustainable finance from loan-loss provision
- Incentive to liquidity requirements and support in the form of guidance from regulatory authorities
- Use portfolio lending rates to lower interest rates for farmers and fisherfolk

Fiscal Incentives

- Tax exemptions on qualified sustainable finance projects such as documentary stamp tax, chattel mortgage, real estate mortgage and other government taxes

Market Analysis

- Evaluate and understand the purchasing processes of customers and key prospects
- Analysis of MSMEs and retail clients

Technical Assistance and Capacity Building

- More in-depth modules and seminars on the different topics under sustainable finance to allow bankers to learn and implement the specific steps and timelines
- Customizable templates, generic manuals, and sample frameworks for each type of bank
- Guidance on how to start developing the sustainable finance framework
- Tools to assess credit risk rating
- Incorporating sustainable finance into bank manuals
- Risk mitigation from MSMEs and smallholder farmer default
- Designing appropriate sustainable finance product and services
- Mechanics on implementing the program to client borrowers
- Assessment and improvement of reporting and planning capabilities

- Guidelines and procedures for stress tests
- Forums for banks to share good practices and learn from each other
- Mentorship from banks that are in advanced stages of sustainable finance

Implementation Support

- Resources for additional manpower
- Adjusted timelines for compliance to the sustainable finance roadmap

7. CONCLUSIONS AND RECOMMENDATIONS

The UN SDGs are quite ambitious and achieving these goals require action from all sectors, including the private sector. Industries and businesses are important toward making strides in ESG outcomes. Disclosure-related regulation from the SEC have resulted in a market shift toward assessing material issues, minimizing impacts and reporting on progress. Large corporations and multinational enterprises have been prime movers, integrating sustainability principles and practices into their business models. Sustainability is seen as a strategic impetus toward risk reduction, developing new markets, contributing to financial performance, and adding overall value to the organization. However, MSMEs need help to steer them toward the path to sustainability. The COVID-19 pandemic has threatened the viability of many businesses and survival is the primary concern at the moment, but this is also an opportune time to adapt business models to building back better and become more sustainable. Smaller businesses are also challenged in operationalizing ESG related concepts and allocating resources to such initiatives.

Channeling finance toward sustainability is critical to getting private-sector led actions off the ground. The Philippine government's prioritization of sustainable finance is a promising step toward that direction. The BSP policy requiring banks to develop sustainable finance frameworks is a signal that the supply for financing ESG action will be forthcoming. Although many universal and commercial banks have already launched their respective frameworks and offer products and services under sustainable finance portfolios, many smaller banks, such as cooperative, thrift, and rural banks, are still grappling with the lack of knowledge and capacity to comply with the BSP directive. Sustainable finance stakeholders need to create an enabling policy environment, allocate resources, and build capacity to ensure that no banks are left behind in the transformation of the Philippine financial and banking system.

Recommendations for Large Corporations, Multinational Enterprises, and Conglomerates

- Developing extended producers' responsibility initiatives would be the next step for corporations that produce significant product waste. These can include take-back programs, designing for circularity and zero waste, or partnership with the formal and informal sectors of the waste management ecosystem.
- Taking the bold action toward developing corporate net-zero targets signifies that the company is serious in its sustainability goals and commits to help achieve the Paris Agreement targets of avoiding global warming over 1.5 degrees Celsius. To avoid being accused of greenwashing or doing a press relations stunt, corporations need to actually reduce carbon emissions from their business activities, rather than paying others to offset their carbon footprint. Key actions would require decreasing reliance on fossil fuels and other non-renewable energy sources.
- Triangulation is a good substitute to hiring consultants to prepare businesses for third-party verification. The private sector should reach out to academic institutions because they are able to analyze data with rigor. Further, examining the policies of relevant government agencies will

allow the company to assess whether sustainability practices comply with current regulations. Finally, working with partners and practitioners such as impact investors can provide additional insight on important elements of sustainability practices, including international standards. Companies can then use the insights provided by these three groups of stakeholders to develop their respective operational standards and framework for sustainability, and execute a materiality test to prioritize which areas of sustainability should be prioritized.

- Develop sustainability corporate policies that can serve as the anchor and guide to translate sustainability into specific action, in the form of projects or activities. Multi-departmental teams can be created to execute these activities, under the oversight of the sustainability leads.
- Invest in an embedding program so that the entire company, from executives to the new hires, can understand the importance of sustainability and how to integrate it into business activities. Gamification of learning can be a big help toward providing a layman understanding of sustainability. This can be done in parallel with capacity building to increase the technical skills of company personnel (e.g., greenhouse gas inventory and accounting, circularity).
- Profile materials by doing a flow analysis and a lifecycle analysis and embed into the short-term and long-term waste management plans to minimize waste to ensure that fewer waste will end up in landfills.
- Look into resource efficiency programs and identify mechanisms to improve the use of various resources. Energy efficiency can be improved by doing an energy audit of the different processes. Water management assessments allow companies to optimize their use of water resources.
- Conducting human rights impact assessments is a pathway toward behavior change as companies will need to lay out measures to prevent human rights transgressions and design grievance redress mechanisms.
- Require all departments to set targets on the different ESG issues material to their respective units. This makes each department accountable to contributing to the organization-wide sustainability strategy.

Recommendations for MSMEs

- Create more appreciation for sustainability among MSMEs by stressing that ESG efforts need not be ambitious. MSMEs need to learn about how to assess material issues within their own value chains and design interventions that would reduce impact (negative externalities) and strengthen the different activities in their value chains.
- Cascade knowledge on the advantages of sustainability up and down the value chain to educate the different actors (e.g., farmers, suppliers of raw materials) on the importance of these initiatives and to encourage them to also practice sustainability. MSMEs need to work with their supply chain actors to identify specific practices that they can do that will have ESG benefits.
- Develop business cases featuring MSMEs that would illustrate sustainability as an investment and not as an expense. Cases such as Villa Socorro Farm show how improvements in ESG factors could lead to new products, more efficient operations, partnerships that would secure the supply chain, and a healthier bottom line. These improvements and cost savings would dispel the notion that sustainability is just for big business.

Recommendations for Banks

- Banks need to assess their existing portfolios and determine how to repackage and reallocate key activities and products under the sustainable finance framework. While there is a plethora of project categories that can be part of the inclusion list, banks can create a simplified framework and focus on projects that are within their core competencies.
- Market research will be key to expanding sustainable finance portfolios. Many smaller banks have reached saturation points in their current markets and would need to expand to emerging sectors. Banks would need to understand future needs of their existing clients or tap market segments that are growing in the banks' geographic areas.
- Banks need to educate their existing clients on the opportunities for financing sustainability to stimulate demand. Knowledge products need to be developed so that any person would be able to understand the importance of ESG factors to daily business or livelihood activities.
- Banks can set up an ESG team or sustainable finance team to monitor bank compliance as well as provide technical assistance to the borrowers gearing up for sustainability projects. The compliance officer of the bank can lead this team.
- Banks need to integrate information on geophysical hazards as part of their credit risk rating system. Many borrowers are highly vulnerable to these hazards and projects that could reduce these risks should be prioritized for financing. HazardHunterPH is good reference to get banks started on this.
- Doing a parallel run of testing the inclusion of sustainability metrics in the risk rating system for business borrowers with the traditional scoring method will allow banks to see the positive effect of including ESG factors.
- Banks with significant portfolios devoted to Agri-Agra financing could approach their framework development from a supply chain or value chain perspective. Financing can be a catalyst to harmonize the interests of various supply chain or value chain actors. Banks would also be able to see additional opportunities for financing by mapping out the different stages of their supply chain or value chain and understanding the needs at each stage.
- Learning networks and regular learning sessions would allow banks to share their experiences in implementing BSP Circular 1085 with each other. Platforms are needed to document and disseminate lessons learned. Peer learning is key when banks are heading in a different and mostly unknown direction.
- 'Twinning programs' for bigger banks to mentor smaller banks may help advance the operationalization of the sustainable finance framework. Banks from different categories should not be seen as competitors since each type has a role in the larger financial ecosystem. Rural and thrift banks can be strengthened with partnership and collaboration with universal and commercial banks.

Recommendations for Regulators

- DTI should work with the SEC in developing a simplified sustainability reporting template for MSMEs, which might encourage MSMEs to also report on their ESG related activities. Incentives can be designed to promote voluntary reporting.
- The Philippine government should explore carbon pricing instruments as a mechanism for further

driving sustainability in industries and businesses. Studies are needed to assess whether schemes such as emissions trading or carbon taxes are feasible in the Philippines.

- The BSP should review possible extensions to the April 2023 deadline for compliance with BSP Circular 1085. A sliding implementation schedule provides smaller banks with more time to implement their sustainable finance frameworks.
- The BSP needs to introduce reporting amendments in relation to sustainable finance as early as possible. Banks are not able to test compliance if they are not aware of the measurement and examination requirements.
- The BSP should consider excluding pilot sustainable finance products and projects from the banks' loan loss provision. This would allow that bank to gain confidence in financing certain types of projects for the first time.
- A technical working group composed of regulators as well as banking associations should develop guidebooks and proforma templates that will assist smaller banks on how to operationalize sustainable finance. Banks should customize the templates depending on risk profiles and business models.

Recommendations for Academic Institutions

- Design a training program for the corporate sector to address the challenges in implementing sustainability initiatives discussed in this report.
- Work with banks and banking associations to provide thought leadership and capacity-building programs to help guide banks implement sustainable finance.

Suggestions for Future Research

- Further research may explore the role of the insurance industry and sustainable insurance in identifying, managing, and mitigating risks associated with ESG factors. The different insurance models for large corporations and MSMEs should be assessed on how these products complement sustainable finance in improving business performance of clients while contributing to the ESG and economic sustainability of enterprises.
- Future research may also explore the role of civil society organizations in the development and implementation of sustainable finance in the Philippines.

APPENDIX

Key Sections of the SEC Sustainability Reporting Template[42]

1. Contextual information about the corporation
2. Materiality process that explains how the corporation identified its material topics
3. Economic disclosures on risks and impacts
    a. How the corporation directly generates and distributes economic value
    b. Climate related risks and opportunities
    c. Impact of procurement practices on stakeholders
    d. Training on anti-corruption policies and procedures
    e. Incidences of corruption
6. Environment disclosures on risks and impacts
    a. Resource management
        - Energy consumption and reduction measures
        - Water consumption
        - Material use
        - Ecosystems and biodiversity affected
    b. Environmental impact management
        - Air emissions
        - Air pollutants
        - Solid and hazardous wastes
        - Effluents
    c. Environmental compliance
5. Social disclosures on risks and impacts
    a. Employee management
    b. Supply chain management
    c. Relationship with the community
    d. Customer management
6. Products or services that contribute to the UN Sustainable Development Goals

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