

SECTORAL

UPDATES

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ESG Investments Poised to Reach \$30 Trillion by 2030

PR News wire, 2nd December 2021

Fueled by net-zero targets and increasing awareness among the investors, ESG-themed investments are predicted to touch \$30 trillion, according to a report by a leading fintech player, Broadridge Financial Solutions. The rise in ESG investments is expected to rise due to the introduction of various international standards and taxonomies like the EU Taxonomy. This would result in the allocation of funds into sustainability segments and will contribute to sustainable economic growth.

Such conditions would also require asset managers to bring in innovative products and specialised skills to cater to market demands. Like traditional investments, transparency, trust, and credibility in the financial markets will continue to remain central to any innovative products.

<https://www.prnewswire.com/news-releases/esg-investments-poised-to-reach-30-trillion-by-2030-301435867.html>

Green bonds face new questions over authenticity

Financial Times, 29th November 2021

The increasing demand for sustainable finance has ramped up green bond issuances year on year. However, the clouds over authenticity or greenness of the bond continue to be a hurdle amongst investors. This poses a serious problem as green bonds continue to dominate the green finance space. With 2030 less than a decade away, any possibility of greenwashing in green bond issuances could put progress made towards 2030 goals at risk.

A lack of common definition on what is green has raised questions about the authenticity of green bonds. In response, the UK's Financial Conduct Authority published a discussion paper in November 2021, on the disclosures fund managers should make. Adding to this, Switzerland financial regulator, Finma, published guidance to protect fund investors from greenwashing and other misleading claims. Firms are also using other ways to identify such misleading claims like verifying data from third party firms.

<https://www.ft.com/content/d797800b-fb07-40c7-8386-a22de312cd35>



IOSCO calls for tighter regulation of ESG data providers

ETF Stream, 25th November 2021

Globally, the lack of transparency and consistency in ESG data reporting is creating a hurdle for all stakeholders. This impedes judgment and decision-making on the part of regulators and investors. In an attempt to address this issue, IOSCO has released an important report that would be a stepping stone to ensure ESG data integrity. The report provides a set of recommendations for market participants and relevant stakeholders. Recommendations include more transparency on the methodology used by ESG ratings and data providers. This would ensure clarity on any potential conflicts of interest and improve communication channels between providers and their clients.

<https://www.etfstream.com/news/iosco-calls-for-tighter-regulation-of-esg-data-providers/>

PSUs lag behind private companies on ESG performance

Mint, 22nd November 2021

Acuite Ratings' ESG data analysis suggests that 40% of the private sector companies are rated 'A' for ESG risk. In the public sector, only 14% of the companies are rated the same. This shows that more companies from the private sector are on a positive track record of managing material risks.

For other parameters, such as business ethics, private companies score an average of 49%, while public sector companies score an average of 48%. This suggests that while public sector units (PSUs) have not been the early adopters of ESG, they are aware of ESG and sustainability. With several companies actively taking steps towards a low-carbon transition, significant opportunities lie in the adoption of new technologies, innovation and decarbonisation.

<https://www.livemint.com/market/stock-market-news/psus-lag-behind-pvt-companies-on-esg-performance-11637519633932.html>



New global partnership aims to remove barriers to Indigenous climate finance

Mongabay, 9th November 2021

The Peoples Forest Partnership – a new international coalition of organisations and investors announced - plans to mobilise \$20 billion per year by 2030 directly impacting the indigenous forest conservation projects.

The new partnership aims to conserve and restore forests which will be funded directly via indigenous community-driven projects. This initiative addresses the problem of "no reward for the preservation of forests", thereby boosting the morale of indigenous communities who work the most in such areas. The partnership information will include investors, indigenous organisations, and conservation groups. Direct participation of the indigenous communities will aid with the faster implementation of funding and project goals. The new partnership would help set new standards for climate finance and reduce an estimated 20 million tons of verified carbon emissions, a significant amount given the globally rising temperatures.

<https://news.mongabay.com/2021/11/new-global-partnership-aims-to-remove-barriers-to-indigenous-climate-finance/>

COP26 coalition worth \$130 trillion vows to put climate at heart of finance

Reuters, 3rd November 2021

As the quantum of finance required to tackle climate change increases, finance firms managing \$130 trillion vow to put climate change at the centre of their work. This would include joining the net-zero pledge, promoting clean technology and green investing. Banks, insurance firms and investors that are a part of this commitment aim to achieve climate goals and put forth a firm position on mobilising climate finance as well.

U.S. Treasury Secretary Janet Yellen highlights that climate change is now not limited to energy crisis or environmental issues, but is also an economic, development and market-stabilizing issue that reflects overall damage to an economy. Thus, the goal is to secure more and more financing mechanisms towards climate change.

With the need for mechanisms to align climate goals rising, both public and private finance will have a significant role in combating climate change. This was also one of the points of the key discussion at COP26 held earlier this year.

<https://www.reuters.com/business/cop/wrapup-politicians-exit-cop26-130tn-worth-financiers-take-stage-2021-11-03/>



ASEAN Sectoral Bodies Release ASEAN Taxonomy for Sustainable Finance – Version 1

ASEAN, 10th November 2021

Association of Southeast Asian Nations (ASEAN) finance's sectoral body released its first version of Taxonomy for Sustainable Finance in November this year. This is an important development in the sustainable finance landscape and would act as a common language to finance sustainable economic activities in the ASEAN region. The Taxonomy will serve as a guide for capital market participants and aid increase in the private investment flow towards sustainability in the region.

The ASEAN Taxonomy is a collaborative effort that is developed keeping in mind the region's unique needs to achieve the sustainability goals. Currently, the ASEAN Taxonomy Board (ATB) comprises representatives from all 10 ASEAN Member States, chaired by Darussalam Central Bank, Mdm. Noorrafidah Sulaiman, Deputy Managing Director (Monetary Operations, Development and International). The ATB is overseen by ASEAN Finance Ministers and Central Bank Governors (AFMGM) with the Sustainable Finance Institute Asia (SFIA) providing administrative support.

Like the taxonomies developed by the EU and China, this too aims to safeguard the environment and promote the transition to low carbon and environmentally sustainable practices. The Taxonomy takes into consideration both qualitative and quantitative approaches to benchmark eligible activities. It is expected that it will act as a framework for investment decisions across 6 identified sectors and provide a benchmark to relevant stakeholders.

<https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-version-1/>

Bank of England starts policing unruly world of ESG debt

Bloomberg Quint, 24th November 2021

In an effort to green the financial system, Bank of England (BOE) for the first time will enforce its green criteria in corporate bond purchases. This will encourage the investors to buy more green bonds due to the involvement of the central bank. Further, it will also consider investments into bonds that adhere to ESG goals standards, and will also rate the issuers with the pre-established metrics.

A step towards establishing a blueprint to promote green investments by the BOE would help bring credibility and overcome the burden of greenwashing. The central bank will be the first mover to publish a scorecard of the bonds based on the climate metrics and thus, reflects support towards the sustainable transition of the economy. The development of ESG bond markets is still evolving and efforts are being made towards standardisation by regulatory as well as private bodies.

The requirement to bring in urgent standardisation across the international markets has increased as ESG labeled issuances have nearly doubled since 2020. However, it needs to be realised that the responsibility does not stop with the establishment of rules by the central authorities but also lies with the market participants to invest responsibly and assess the data.

<https://www.bloombergquint.com/markets/credit-world-welcomes-bank-of-england-s-role-policing-esg-debt>



Investor Group Calls for Blended Finance Solution to Address Shortfall in EM Climate Finance

ESG Today, 29th November 2021

The Net-Zero Asset Owner Alliance, a UN-convened international alliance which represents \$10 trillion of AUM, has called upon a discussion to scale up blended finance as a solution to achieve net-zero in the emerging markets. Substantial amount of capital flow is required in the emerging countries which was one of the key takeaways from the COP26 held this year at Glasgow, with International Energy Association (IEA) estimating \$1 trillion investments in just clean energy space in the developing countries.

The discussion paper issued by the Alliance laid down obstacles to mobilising finance such as elevated risk perception, restricted market access, and lack of data transparency. Blended finance has the ability to cater to local markets and can address the challenges identified.

Scaling blended finance was a top priority and a key ongoing agenda, according to Günther Thallinger, Allianz SE Board Member & Chair of the Net-Zero Asset Owner Alliance. The remark was made in the light of the risk-return benefit to private institutional investors who face difficulties in financing independently.

<https://www.esgtoday.com/investor-group-calls-for-blended-finance-solution-to-address-shortfall-in-em-climate-finance/>



India 'cannot escape' coal phasedown, top coal ministry official says

Climate Home News, 24th November 2021

India, along with China, made a diplomatic push at COP26 to dilute the language of the final agreement that changes from phasing out of the coal power to phasing down of the coal power. India has planned to increase its coal production as part of its self-reliant policy, which the analysts suggest is incompatible with its climate targets for 2030 and 2070 net-zero goals.

A new report by National Foundation for India (NFI) says that carbon neutrality goals move India to a greener economy but considering the dependence of millions of people on coal, what India needs is a transition plan. India for this decade doesn't have any trajectory for its coal usage reduction and with no clear timeline for phasedown, it leaves the term open to interpretation.

More than 13 million people are dependent on the coal economy, excluding those involved in the informal sector, which if included may amount to about 20 million people who may be impacted by the transition. In 2019, 94 open cast mines out of 420 coal mines were producing 85% of the coal, out of which only 128 mines were making a profit. As India slowly prioritises decarbonisation, it is important to factor in the many lives and livelihoods dependent on polluting sectors and ensure an inclusive and just transition.

<https://www.climatechangenews.com/2021/11/24/india-cannot-escape-coal-phasedown-top-coal-ministry-official-says/>

Australia's forest fires fanned by climate crisis

AlJazeera, 29th November 2021

CSIRO, which is Australia's national science agency, came up with new research that found that climate change is responsible for a significant increase in forest fires in the country over the past 30 years. A study published in the Nature journal combined analysis of the previous forest fires and found that fires seasons are getting prolonged, and the blazes have become more common not only in the forest region but also in the tropical rainforest region of the country. This research is important to understand the predictability of future fires.

There has been an increase in extreme heat events while there is a decline in rainfall in the eastern and southern regions of the country. When comparing the extreme events between 1988 to 2001 and 2002 to 2018, it is noted that the average annual burned area has increased 350 percent and if 2019 is included then it has increased 800 percent. Fire events frequency has increased with fire intervals shorter than 20 years. This could put the ecosystems at risk with some type of vegetation getting destroyed before reaching maturity.

<https://www.aljazeera.com/news/2021/11/29/australias-forest-fires-fanned-by-climate-crisis-study>

Climate-linked health risks to rise, COP26 panelists warn

Reuters, 9th November 2021

U.N. climate talks warned about the rise in climate-linked health risks like diseases, air pollution, and heatstrokes. Climate change is worsening water and food securities issues while extreme events are affecting communities worldwide. There are challenges that the smaller islands nation face in keeping their medical facilities functional in case of extreme events happening like floods and superstorms. With temperatures set to increase by 1.5 degrees, climate impacts will not only have catastrophic damage but will also be irreversible. Vulnerable countries therefore urgently require finance to move their medical facilities and infrastructure to a safer zone and train their medical professional to deal with climate-related health issues.

<https://www.reuters.com/business/cop/climate-linked-health-risks-rise-cop26-panelists-warn-2021-11-09/>



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