Introduction to Sustainable Finance: *Definition, Importance and Global Trends*

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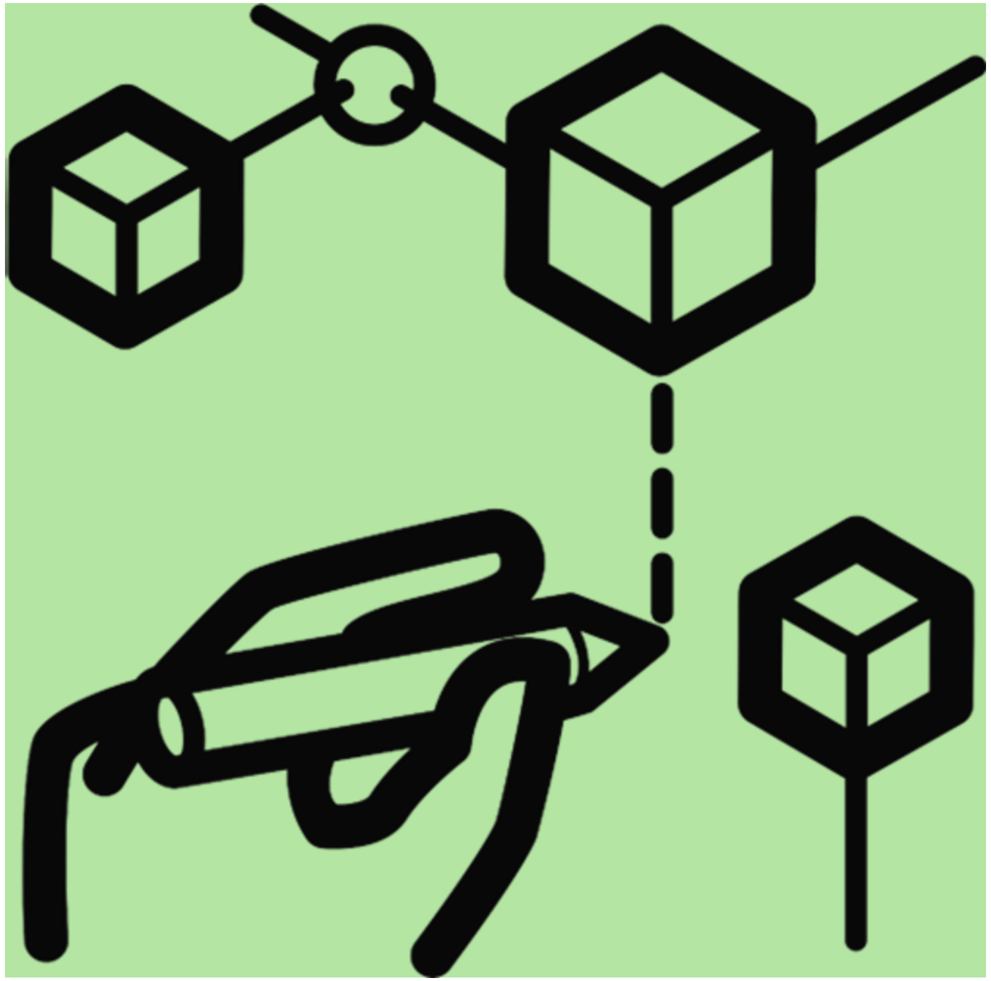

Outline

- ❖ Relevance and Context for Sustainable Finance
- ❖ Understanding Sustainable Finance–Definition, Types of Instruments *(briefly)*, Evolution of Sustainable Finance
- ❖ Importance of Sustainable Finance–Calling, Case Studies
- ❖ Sustainable Finance @EXIM Banks in Asian Region
- ❖ Global Trends
- ❖ Sustainable Finance Ecosystem
- ❖ Key Takeaways and Challenges

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Relevance and Context of Sustainable Finance?

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Why are we here today?

What's happening in the world that's making us rethink how we do business and finance?

Why can't we just leave sustainability to social and environmental advocacy groups and focus on profits?

What's at stake if the financial sector doesn't adapt to changing global needs?

Why should we care about sustainable finance when there are so many other business priorities?

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Why are we here today?

What's happening in the world that's making us rethink how we do business and finance?

climate change, regulations tightening, Investor demand, ESG, Supply chain sustainability, need to focus on social aspects , customer behaviour

Why can't we just leave sustainability to social and environmental advocacy groups and focus on profits?

sustainability directly affects profits, investors directing capital to sustainable projects, insurance costs escalate for high-risk activities, regulatory compliance is mandatory

What's at stake if the financial sector doesn't adapt to changing global needs?

massive losses from stranded assets, climate-vulnerable infrastructure, regulatory penalties and increase in compliance costs, loosing market share, environmental and social instability

Why should we care about sustainable finance when there are so many other business priorities?

risk management becomes more effective when you consider E&S Risks, cost reduction , revenue growth, regulatory compliance becomes easier when you're ahead of the curve, business priorities remain achievable in the long term by building a stable foundation for growth.

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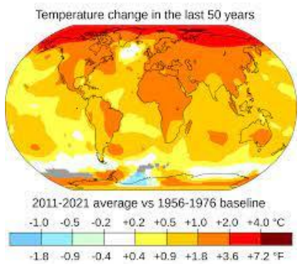
Global climate change threat and our vulnerability



- Companies needing to adopt climate change adaptation and mitigations strategies on priority.
- Adopt resource (energy, water, raw material) efficiency, circular economy measures and switch to clean fuels.
- Invest in low carbon growth and paradigm shift to renewable energy.
- Adopt SBTi to mitigate GHG footprint and publish sustainability reports.

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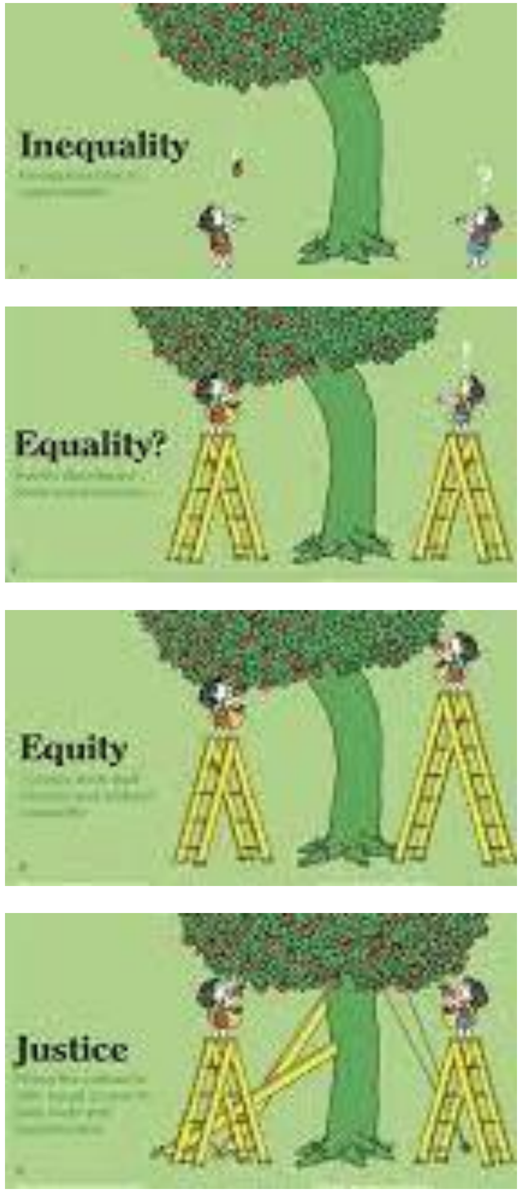
Demand for equity and justice



- World Social Report 2020, shows that income inequality has increased in most developed countries, and some middle-income countries.
- Climate change is making the world’s poorest countries even poorer
- Income inequality leads to slower economic growth, unequal societies, job insecurity, discontent and mass protests.
- Companies would be scanned for their contributions in solving societal problems and would be expected to contribute beyond CSR.
- Perception of local communities would be vital for sustainable business operation.

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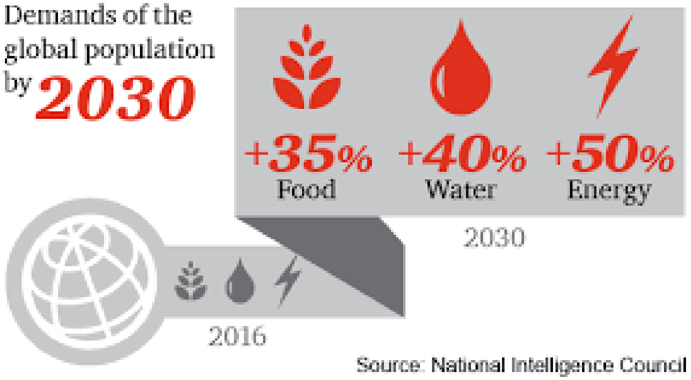
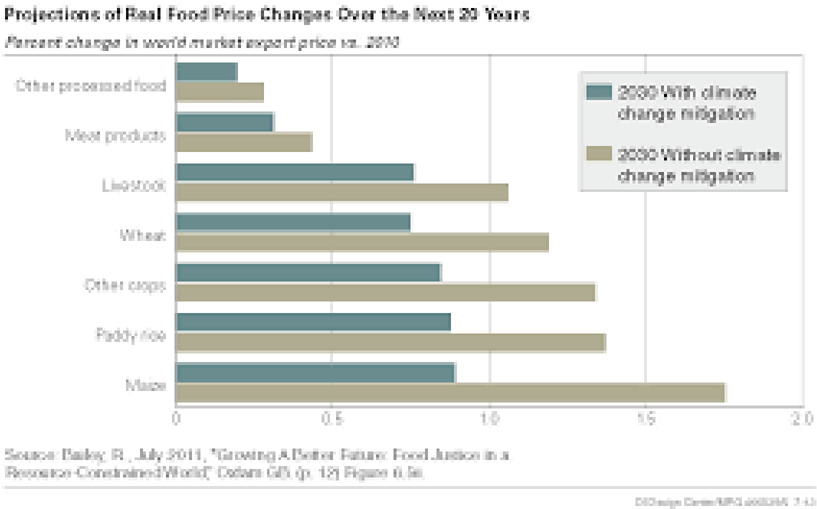
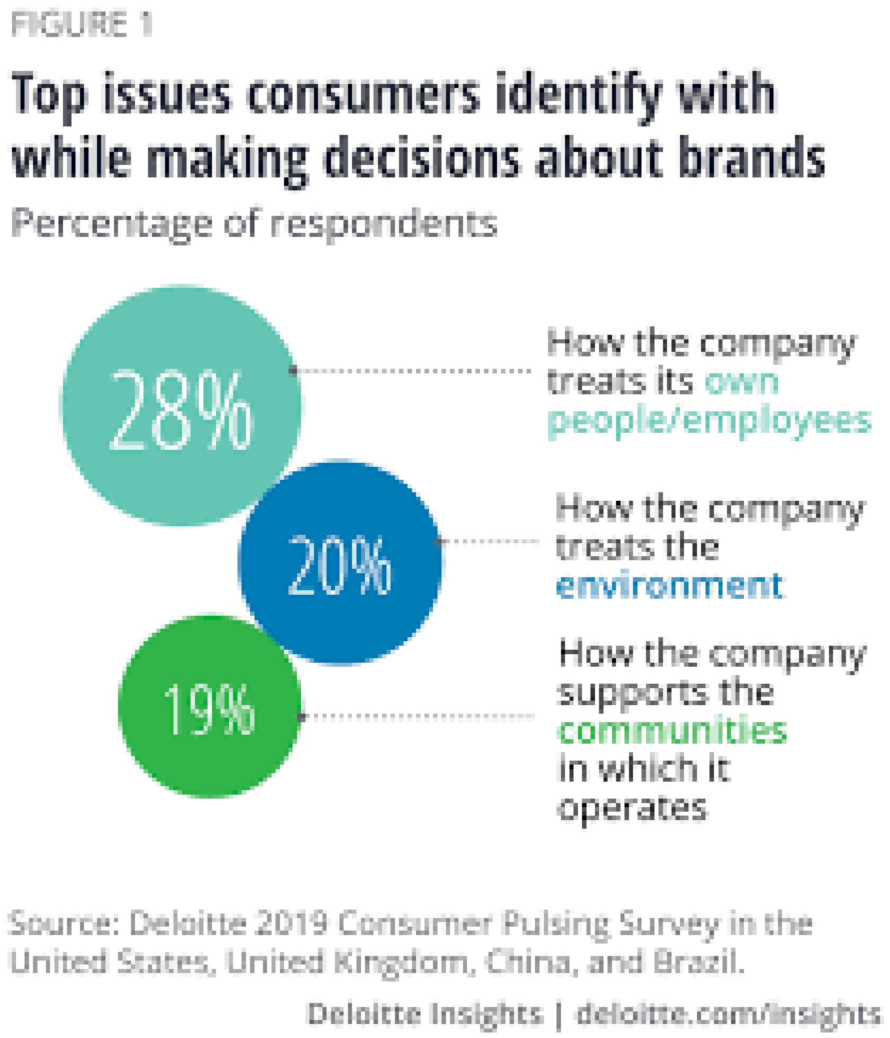
Growing stress on already scarce resources





- About 84 billion tonnes of materials were extracted by the human economy resulting in extensive and rapid change in ecosystem.
- The BAU approach would result in projected material extraction of about 100 billion tonnes by 2030 while increasing the demand for food by 60% and water by 55% during the same period.
- Disrupted supply of water for plant operations in water stressed areas.
- Declining availability of natural resources and their impact of prices and availability.
- Increased demand for adopting Resource Efficiency, Circular Economy, Low Carbon and Sustainable Consumption and Production strategies.

Purpose beyond Profit: Customers and Stakeholders prefer such companies



- According to a report, about **63%** customers felt happy when buying sustainable products while **53%** customers willing to change to lesser know brands simply because they were sustainable, indicating the future of markets.
- Similarly, **25%** of the younger customers prefer brands which have low eco-footprint.
- Customers would demand social and environmental status of productions.
- Employees would prefer companies with equal opportunity, safe work environment, enabling and transparent processes.

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Investors and regulators seeking traction in ESG performance of corporates

ESG-focused institutional investment seen soaring 84% to US$33.9 trillion in 2026, making up 21.5% of assets under management.

- ESG reporting has now being mandated by regulators and investors.
- More and more investors would seek ESG performances before investing
- Investing in green and climate resilient technologies would get preferences
- Integrated reporting framework would need to be incorporated to highlight non-financial performances alongside with financial performances.

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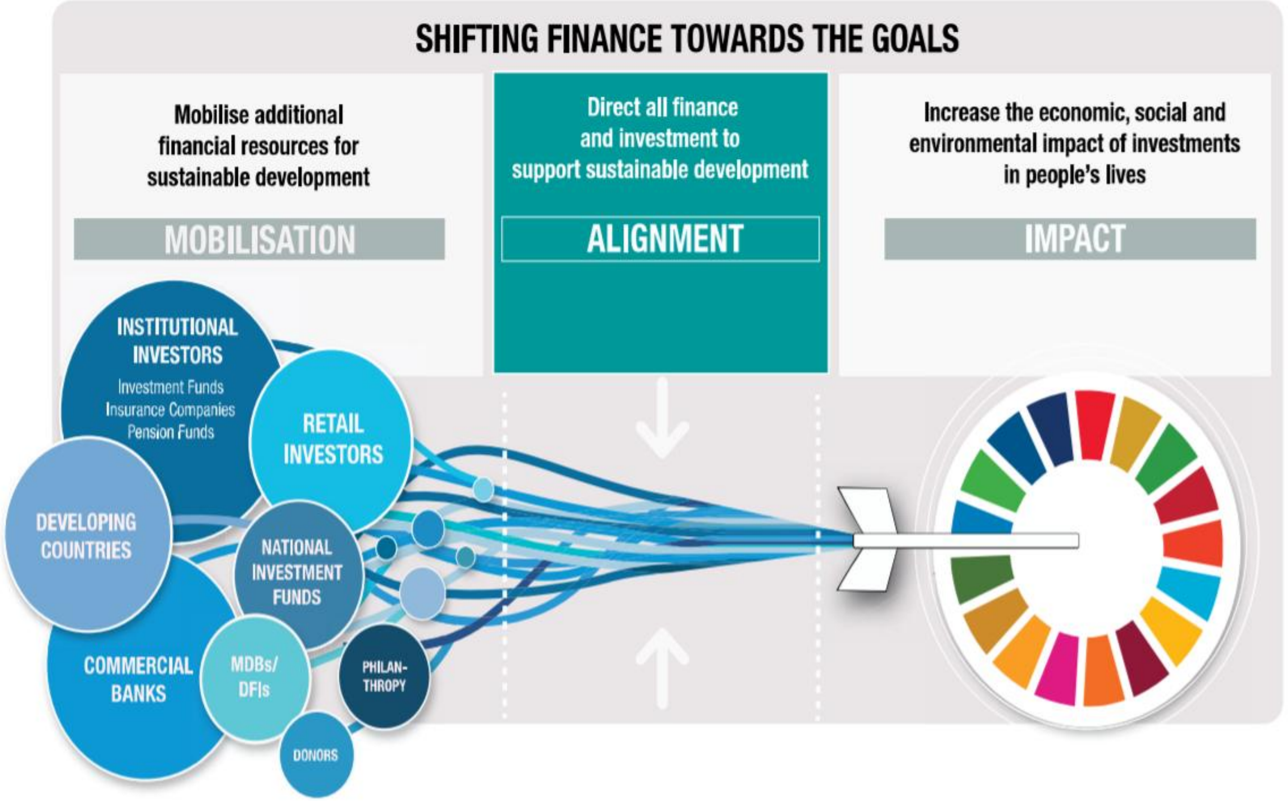
Global call for businesses to be a force for good

- Businesses are expected to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption.
- Business leaders are expected to take strategic actions to advance the UN Sustainable Development Goals and be a torch-bearer for such initiatives
- Increased pressure to hold the supply chain to the same standards of sustainability

How much finance do we need for the SDGs?

- Achieving the economic transitions needed to reach the SDGs will require investments at an unprecedented scale.
- UN Financing for Sustainable Development Report 2024 estimates a financial gap of up to USD 4 trillion annually.
- Debt levels in climate-vulnerable countries are expected to double over the next decade.
- **Need for a more responsive financial system that scales up investment in the SDGs and is better equipped to respond to crises.**



Source: United Nations (2024). Financing for Sustainable Development. https://www.un.org/sustainabledevelopment/financing-for-development/

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Aligning global capital with long-term value

As the world moves toward financing the SDGs, there's growing recognition that **the financial system needs to evolve** — not just in scale, but in purpose, structure, and practice.

Challenge:

Sustainability claims are increasing in the market, but the market **lacks a unified approach** to defining, measuring, and delivering real impact.

Consequences:

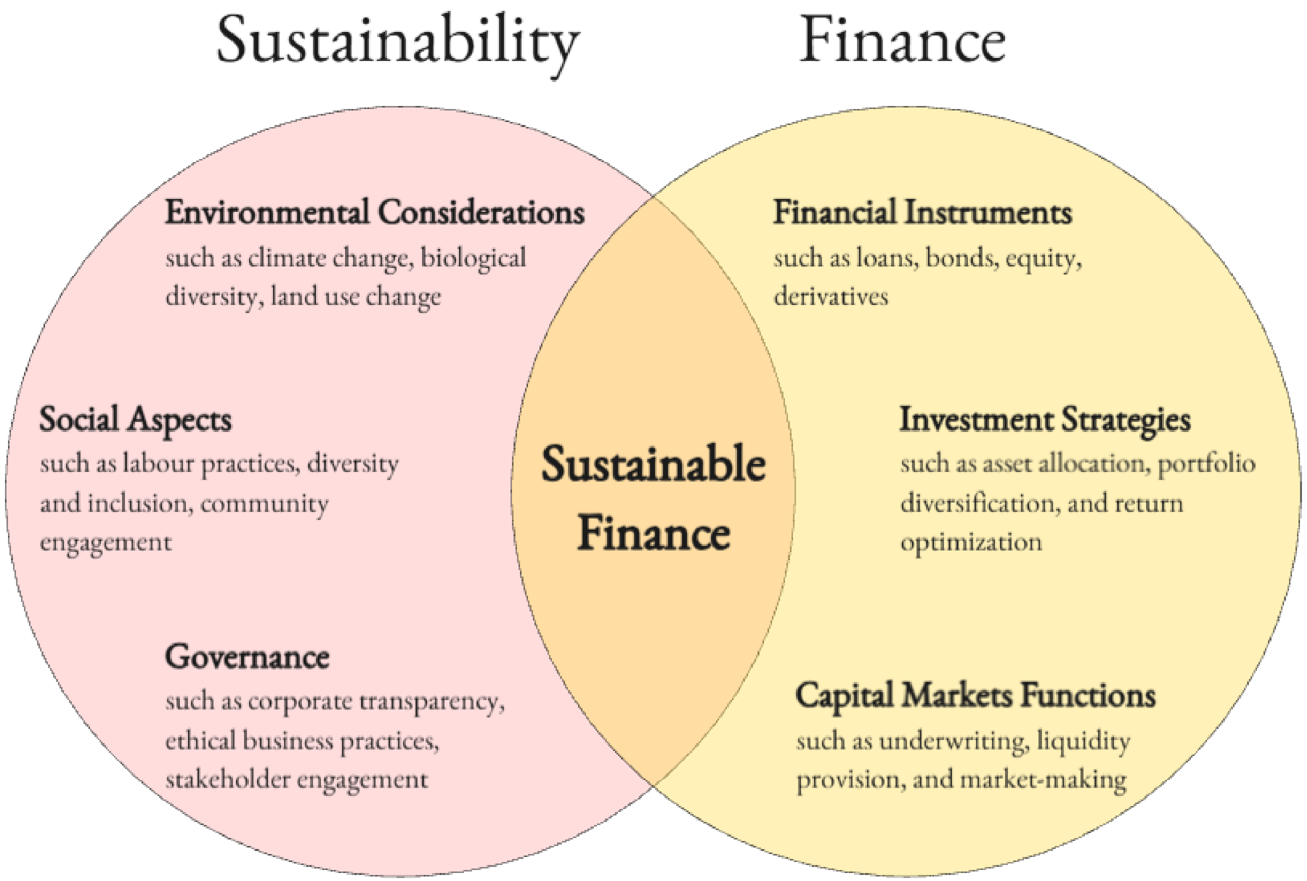
- Greenwashing and inconsistent ESG integration
- Weak accountability for non-financial outcomes
- Capital flowing to "safe" assets rather than SDG-critical areas

Solution:

Global principles, standards and frameworks have emerged — setting out common values, aligning financial decisions with sustainability goals, and improving transparency and accountability.

What is Sustainable Finance?

What is Sustainable Finance?



- Broad concept looking at how **finance** (investing and lending) interacts with ***economic, social, and environmental issues***
- Integrates ***sustainability considerations*** in mobilizing finance for (sustainable) growth
- Shift from exclusive profit seeking financial strategy to a more responsible and forward-thinking *holistic approach to finance and investment*

Sustainable finance goes beyond funding projects with social and environmental goals; it also involves financing them in a way that ensures robust ESG performance, securing their long-term viability. **It's about sustained impact, not just initial good intentions.**

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Can be considered

A new vision for the financial sector

Corporates play a key role in long-term value creation

Using its allocation role, the financial sector can accelerate long-term value creation

Early evidence that companies that perform well on material sustainability issues also perform well in the stock market

Changing the objective from enhancing shareholder value to stakeholder value, which integrates financial, social and environmental value.

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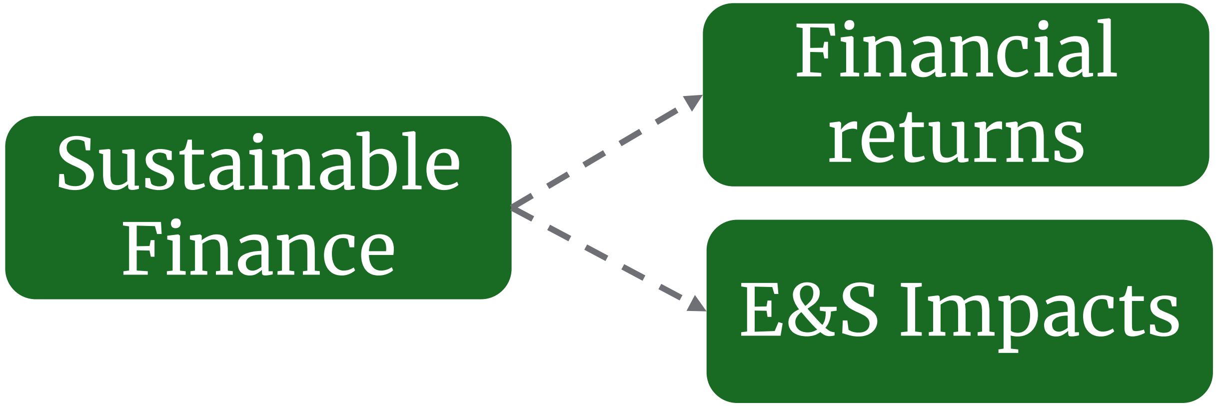
Sustainable Finance: Unlocking Opportunities for SDG



- Sustainable Finance **unlocks investment** for economic activities and projects that deliver **better outcomes for people and the planet**.
- **Double materiality** (financial and non-financial) of the SDG alignment agenda relies on the achievement of two objectives:
  - **Equality**: Mobilizing resources to ensure no one is left behind and bridge SDG financing gaps.
  - **Sustainability**: Directing resources to accelerate progress across all SDGs

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Types of Sustainable Finance Instruments

Sustainable Finance Instruments

Sustainable Debt Instruments

- **Sustainable Bonds**
  - Bonds can be classified as Green, Social, Blue, Orange or Sustainability bonds
- **Sustainable Loans**
  - Companies create their own Green Loan Framework and use proceed for eligible projects
- **Sustainable Linked Bonds/Loans**
  - Borrowers interest rate or terms are linked its achievement of predefined sustainability or ESG targets

Sustainable Equity

- Investments in sustainable funds / companies

Sustainable Finance Instruments

Environment

Green Bonds

- Renewable energy projects (e.g., solar farms, wind turbines).
- Energy-efficient buildings and retrofitting infrastructure.
- Waste management and recycling systems.
- Sustainable forestry and biodiversity conservation.
- Clean transportation systems (e.g., electric vehicles, metro networks).

Climate Bonds

- Large-scale renewable energy deployment
- Climate adaptation projects, such as flood defenses and resilient infrastructure.
- Carbon capture and storage technologies.
- Green hydrogen production and distribution systems.

Blue Bonds

- Marine ecosystem protection (e.g., coral reef restoration, mangrove conservation).
- Sustainable fishing practices and aquaculture development.
- Ocean-cleanup initiatives to combat plastic pollution.
- Climate resilience projects for coastal communities.

Sustainable Finance Instruments

Social

Social Bonds

- Affordable housing and low-income housing projects.
- Public healthcare infrastructure and pandemic response initiatives.
- Educational facilities and programs in underserved communities.
- Projects supporting gender equality or minority-owned businesses.
- Food security programs and clean water access projects.

Orange Bonds

- Projects focused on gender equality and women's empowerment.
- Women-led business initiatives and entrepreneurship programs.
- Female-focused healthcare and education programs.
- Addressing barriers to women's economic participation.
- Capacity-building projects for women in rural and underserved areas.

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Sustainable Finance Instruments

Others

Sustainability Bonds

- Used to finance a combination of Green and Social Projects.

Sustainability-Linked Loans

- Loan terms (such as interest rate) linked to the achievement of predefined sustainability performance targets.

Development Impact Bonds

Performance-based investment instrument to finance development programmes in low-resource countries. Example projects are:

- Skills training programs for unemployed youth.
- Malaria prevention and vaccination campaigns.
- Water and sanitation infrastructure for rural communities.

Transition Bonds

- Improving energy efficiency in traditional industrial sectors.
- Retrofitting infrastructure to reduce carbon footprints.
- Investments in sustainable supply chains for agriculture or manufacturing.
- Energy transition projects for industries with high emissions (e.g., transitioning coal plants to gas or renewable energy).

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How to Issue Sustainable Finance?

The International Capital Market Association (ICMA) provides globally accepted *voluntary principles and guidelines* to promote transparency, integrity, and disclosure in sustainable debt markets.

These principles guide issuers in structuring, issuing, and reporting on sustainable debt instruments, and help investors assess the credibility and impact of investments.

ICMA's Green Bond Principles establishes four core components: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting requirements.

Key ICMA Principles:

- Green Bond Principles (GBP)
- Social Bond Principles (SBP)
- Sustainability Bond Guidelines (SBG)
- Sustainability-Linked Bond Principles (SLBP)

Supplementary Guidance:

- ICMA Handbook for Impact Reporting
- Guidelines for External Reviews
- Climate Transition Finance Handbook
- KPIs Registry for SLBs

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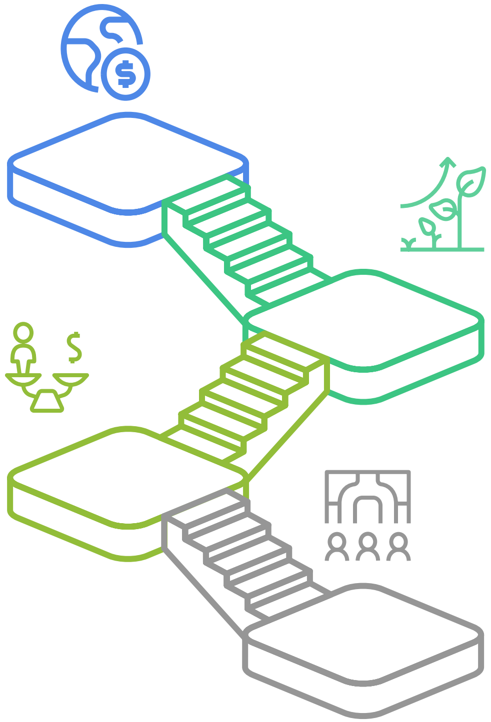
Evolution of Sustainable Finance

- Sustainable finance has evolved significantly — from merely avoiding harmful investments to **proactively shaping a sustainable future.**
- Each stage reflects a deeper understanding of the role of finance in society — moving from isolated decisions to **system-wide transformation**.



Sustainable Finance 3.0

3

Finance as a tool for sustainable development.

Sustainable Finance 2.0

2

Integration of stakeholder value and externalities.

Sustainable Finance 1.0

1

Introduction of basic social and environmental considerations.

Finance-as-usual

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Traditional finance focused on profit maximization.

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Screening Sustainable Finance Investment

Negative Sustainable Finance	**Positive Sustainable Finance**
Investments ***excluded*** based on their negative environmental or social impacts	Investments ***selected*** based on their potential for positive, additional, social, or environmental impact

Positive sustainable finance often aligned with the UN SDGs

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Why is Sustainable Finance Important?

Strategic Impact of Sustainable Finance on Long-Term Value Creation

Aligns Capital with Long-Term Value : It channels investments toward businesses and projects that generate positive environmental and social outcomes alongside financial returns.

Manages Risk More Effectively: Integrates environmental, social, and governance (ESG) risks into financial decision-making—helping avoid stranded assets, reputational damage, and regulatory penalties.

Supports Global Climate and Development Goals: Drives funding toward clean energy, circular economy, biodiversity protection, and social equity—crucial for achieving SDGs, Paris Agreement, and national climate targets.

Increases Resilience and Competitiveness: Helps businesses future-proof against climate change, resource scarcity, social unrest, and investor scrutiny.

Unlocks New Market Opportunities: Opens up innovative financial instruments (e.g., green bonds, sustainability-linked loans) and attracts ESG-conscious investors.

Link to Business Sustainability

Enhances Reputation and Stakeholder Trust

Transparent ESG-aligned financing strengthens brand value and builds stronger relationships with customers, employees, and regulators.

Long-Term Financial Performance

Firms that align to sustainable finance principles often show better long-term returns due to efficient resource use, risk management, and stakeholder trust

Integrated Strategy

Sustainable finance supports businesses in embedding ESG into their strategy—making sustainability a core value rather than a side initiative

License to Operate

Access to finance increasingly depends on demonstrating ESG performance, particularly from banks, investors, and development finance institutions.

Enables Transition Pathways

Sustainable finance mechanisms fund the transition to low-carbon operations, just workforce shifts, and innovation—ensuring business continuity in a changing world.

Calling for Sustainable Finance

- Banks are no longer asking whether to finance sustainably — but *how to do it better.*
- Increasingly, ESG-aligned finance offers financial benefits: *lower costs, longer tenors, higher investor demand.*

Mechanism	How it works?
💰 **ESG-Linked Pricing**	Sustainable finance funders usually set lower margins if ESG targets (e.g. GHG, resettlement plans) met
🌱 **Blended Finance**	Concessional capital lowers cost/risk for commercial lenders
💸 **Investor Appetite**	Oversubscription reduces pricing for issuers
🛡️ **De-risking**	Safeguards = lower reputational/project risk = better terms
✅ **Taxonomy Alignment**	Easier regulatory approval, access to ESG-focused pools

Few Case Studies on Global Implementation of Sustainable Finance

Case Study: HSBC's $1 Trillion Strategy

Client Acquisition & Fee Income from ESG Products

The Commitment

$1 trillion in sustainable financing and investment by 2030 as part of net-zero strategy.

The Approach

HSBC has broadened its suite of ESG and sustainable products across various asset classes, including mutual funds, ETFs, equities, fixed income, SLLs and alternatives.

The Impact

- Attracted new large corporate clients in clean energy, real estate, and mobility
- Boosted non-interest income through deal structuring, advisory, and underwriting fees

The Result

ESG finance became a revenue-generating product line

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Case Study: COFCO International (China)

The Approach

Estimated Annual Savings of $1 Million
COFCO International, a major agribusiness company, secured a $2.1 billion SLL, tying its loan terms to sustainability performance.

The Results

By achieving its environmental targets, COFCO estimates annual savings of approximately $1 million due to reduced interest rates

Case Study: BNP Paribas & Sustainable Supply Chain Finance – Innovation in Sustainable Finance Products

The Approach

BNP Paribas offered supply chain finance with preferential terms tied to ESG performance.

The Impact

- Attracted high-value corporate clients like **PUMA.**
- Collaborated with PUMA to launch a *sustainability-linked supply chain finance program* that offers financial incentives to suppliers for improving their ESG performance.

The Results

- Increased transaction volumes and margins from ESG-compliant suppliers
- Created a scalable product with stable cash flows and reduced credit risk.
- Strengthened BNP's ESG banking leadership reputation

Asian EXIM Banks – Steps Towards Sustainable Finance

EXIM India's Sustainable Finance Programme

To support Indian businesses in transitioning to low-carbon and sustainable practices through green, transition, social, and sustainability-linked finance, addressing ESG concerns and fostering alignment with global sustainability goals.

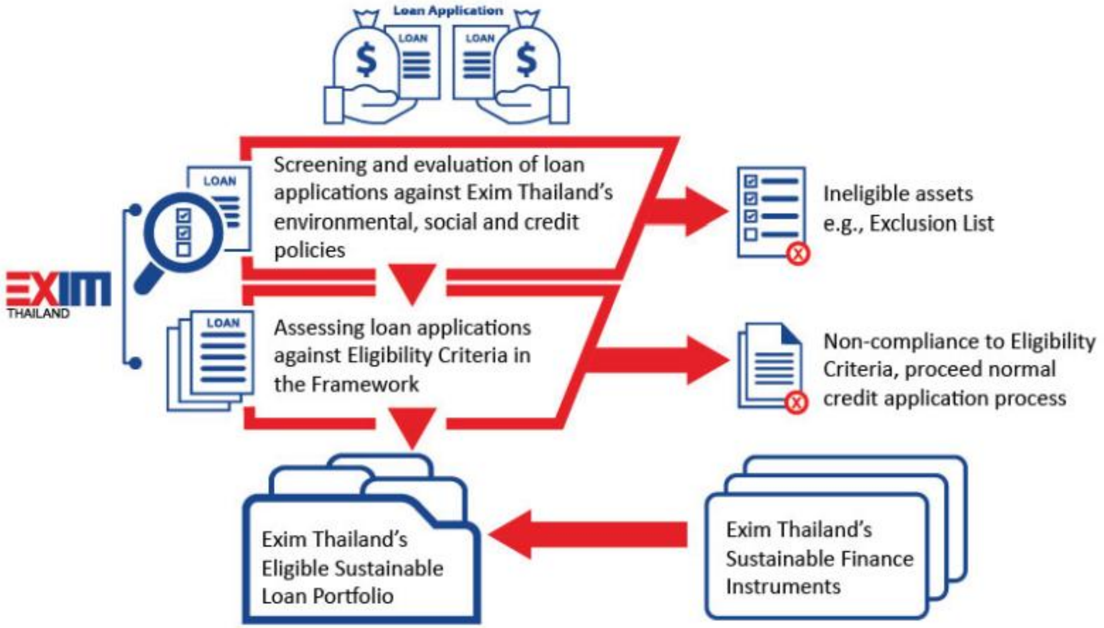
Salient Features:

- Expands Financing capacities to a broader spectrum of companies with diverse needs
- Assistance includes both direct finance and refinance as well
- Covers fund-based and non-fund-based support
- Available in INR as well as foreign currency
- KPIs and Sustainability Performance Indicators are integrated for impact monitoring

EXIM Thailand’s Sustainable Finance Framework

EXIM Thailand’s Sustainable Finance Framework prioritizes both green and social lending to support environmentally friendly projects and businesses through credit and insurance schemes

Framework was created to raise capital via bonds, loans, and other financial instruments, and to label those individual transactions as either green, social, or sustainable.



The **Asian Development Bank (ADB)** is supporting the Export–Import Bank of Thailand in issuing its first green bond in accordance with the Association of Southeast Asian Nations (ASEAN) green bond standards.

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China EXIM Bank

The Export-Import Bank of China

Proposed initiatives to fulfill environmental and social responsibilities and promote economic development in the following ways:

- Integrate green development into its pursuit of sustainable development
- Step up green finance across the credit system, procedures management, and operations.
- Promote green industries and reduce support for inefficient and high-polluting industries.
- Support the active development of green finance business through green credit, environmental protection funds, carbon finance, and green bonds.
- Focus on the management, prevention, and control of environmental and social risks.

Korea EXIM Bank

Building upon its pioneering green bond issuance in 2013, a first for an Asian non-AAA issuer, Korea EXIM Bank has remained a prominent participant in ESG bond markets.

Net proceeds from bonds issued under the Framework support Korean businesses venturing into green industries and fund social projects.

72.9% of the proceeds are directed toward clean transportation projects, while the remaining funds are primarily allocated to clean and sustainable vessel projects and the renewable energy sector, including solar power.

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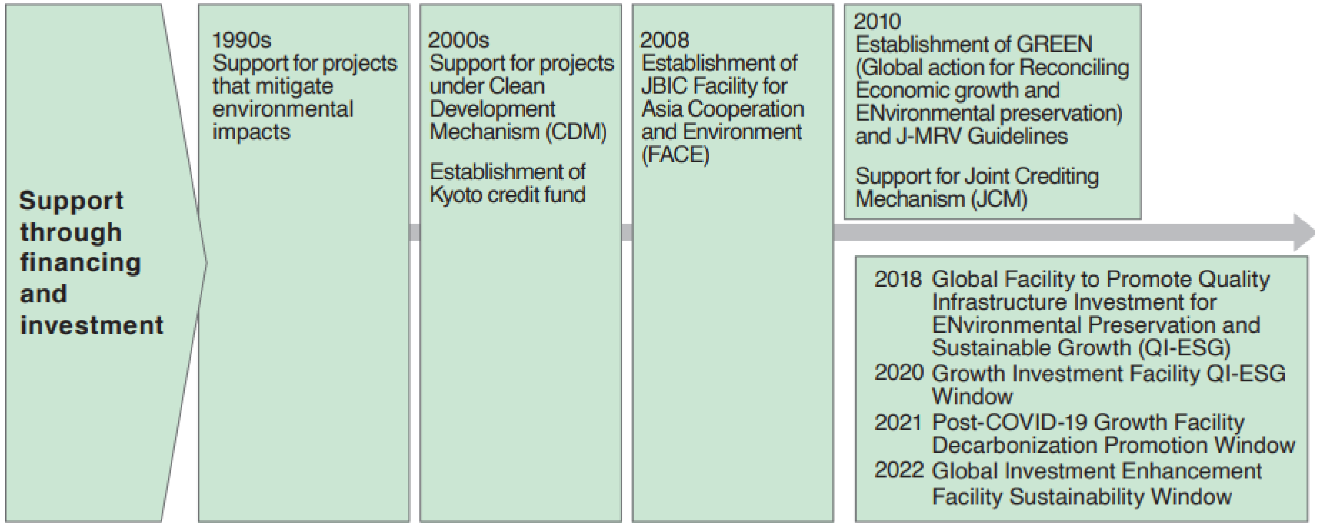
Japan Bank for International Cooperation (JBIC)

Japan Bank for International Cooperation (JBIC)

- JBIC aims to contribute to realizing a sustainable society and environment through green finance.
- To raise the necessary funds, in January 2022, JBIC first issued green bonds as international bonds, which were guaranteed by the Japanese government.
- Since then, they have issued another two government-guaranteed global green bonds and one non-guaranteed domestic green bond.
- Funds raised through these issues are allocated to eligible projects, including those related to renewable energy and clean transportation
- Predecessor of JBIC was the Export-Import Bank of Japan (JEXIM) (until 1999)



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EXIM Malaysia's Sustainability Financing Commitment

- Export-Import Bank of Malaysia ("EXIM Bank Malaysia") announced the launch of its new EXIM Green Global Initiative, designed to support and accelerate environmental sustainability by Malaysian entrepreneurs in the export sector.
- The initiative aims to mobilise up to RM1.5 billion by 2027 in sustainable financing to foster environmental stewardship by funding impactful green projects.
- EXIM Green Global Initiative also entails three transformative initiatives that collectively support companies in aligning with global sustainability standards in international markets.
- These initiatives aim to enhance resilience against climate change, while simultaneously delivering significant positive impacts to businesses involved.

EXIM BANK MALAYSIA

Export-Import Bank of Malaysia Berhad

Türk EXIM Bank

- Türk Eximbank believes that sustainable exports is of the utmost importance in the rapidly changing world that is confronted with numerous issues from climate change to socioeconomic inequality.
- In this direction, the Bank considers all financial and non-financial risks that are economic and ESG-related while carrying out its activities.
- The World Bank Group partnered to support Türkiye's export sector with both long-term guarantees through the World Bank and short-term guarantees through the Multilateral Investment Guarantee Agency (MIGA).
- These guarantees will provide Turk Eximbank, Türkiye's official export credit agency, access to large-scale financing at a lower cost, short-term liquidity for production of export goods and long-term capital for decarbonization of Turkish exports.
- The proceeds from the World Bank-guaranteed project will be used for exporters' green investments, including for adaptation finance activities.

Turk Eximbank

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Export Finance Australia

EFA has established a **Sustainable Finance Framework** to fund projects that contribute to:

- **Renewable energy** (solar, wind, hydrogen, etc.)
- **Clean transportation** (electric vehicles, sustainable infrastructure)
- **Climate adaptation & resilience**
- **Social and economic development** (healthcare, education, Indigenous businesses)

EFA issues **green and sustainability-linked bonds** to raise capital for these projects.

Green & Sustainable Loans-EFA provides financing for:

- **Renewable energy projects** (e.g., solar farms, wind energy, hydrogen
- **Low-carbon technologies** (e.g., battery storage, energy efficiency)
- **Sustainable infrastructure** (e.g., public transport, water managemen

export finance australia

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Indonesia EXIM Bank

Indonesia Eximbank plays a crucial role in promoting sustainable finance, focusing on green, transition, social, and sustainability-linked investments, as well as developing a common ESG approach for all lenders.

Bank also implements various financing initiatives and activities in Africa, supporting two-way trade and investment flows.

Sustainable Finance Programme: aims to finance green, transition, social, and sustainability-linked investments of eligible borrowers, under the commercial credit business of the bank.

ESG Policy: for Sustainable Development / Responsible Financing, which aims to ensure compliance with host country regulations and develop a common policy approach for all lenders.

Financing Initiatives in Africa: support the "Focus Africa" program, which promotes mutual cooperation and benefits.

Buyer's Credit under National Export Insurance Account (BC-NEIA): Program aims to boost large-scale project exports from Indonesia to Africa.

Why is Sustainable Finance essential in Import-Export Banks?

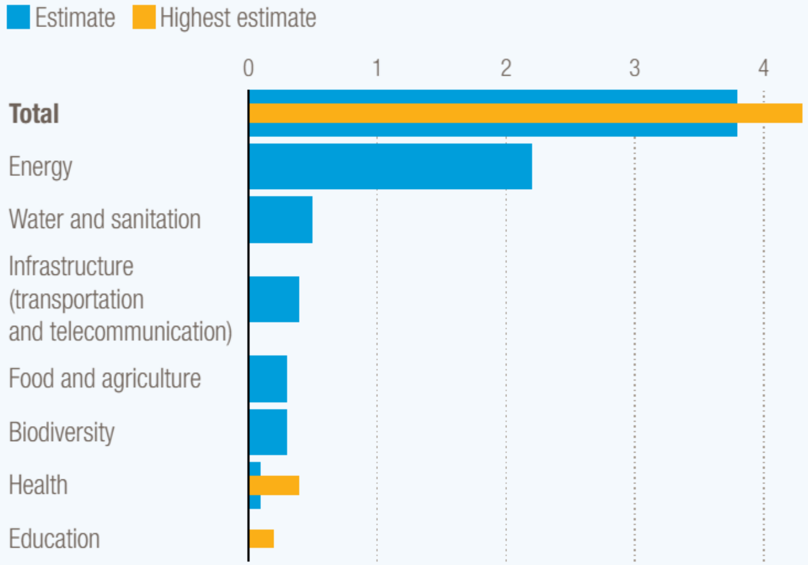
- Risk management of financial risks emanating from climate change and environmental degradation and social harm, and promoting long-term viability and stability of portfolio
- Facilitates regulatory compliance and meeting international standards and enhancing access to international capital markets
- Opportunities to capture the growing market demand of sustainable financing by businesses to meet their sustainability commitments and that of their supply chain and enabling competitive positioning
- Supporting national trade objectives by playing a crucial role in aligning with national strategies on financing renewable energy exports, clean technology trade, and environmentally sustainable infrastructure projects.
- By prioritizing clean technologies, circular economy goods, and low-carbon industries, EXIM banks promote innovation and diversification in trade portfolios.
- Promotes access to capital and funding sources such as green bonds, climate funds, and ESG-focused investors, helping diversify funding sources
- Maintain reputation and stakeholder expectations by helping maintain their social license to operate and avoid reputational risks associated with financing environmentally harmful projects.

Global Trends in Sustainable Finance

Tight financing conditions in 2023 led to a 26% downturn in international project finance, which is crucial for infrastructure investment in areas such as power and renewable energy.

Sustainable development goals investment gap remains wide in developing countries

Estimated annual investment gap to reach the sustainable development goals (SDGs) by 2030, total and per sector, capital expenditure, trillions of dollars



Source: UN Trade and Development (UNCTAD) SDG Investment Trends Monitor September 2023

Developing countries: Investment in sectors relevant to sustainable development goals

Number of international projects by sector and percentage change

Name	2015	2022	2023	Growth rate, 2015–2023 (%)	Growth rate, 2022–2023 (%)
Infrastructure [a]	730	945	1 022	40	8
Renewable energy	372	687	655	76	–5
Water, sanitation and hygiene (WASH)	32	36	30	–6	–17
Agrifood systems [b]	368	305	346	–6	13
Health and education	277	317	337	22	6

Source: UN Trade and Development (UNCTAD), based on The Financial Times, fDi Markets (www.fdimarkets.com) and Refinitiv.

As a result, investment in sectors linked to the Sustainable Development Goals (SDGs) fell by more than 10%. The report highlights that agrifood systems and water and sanitation registered fewer internationally financed projects in 2023 than in 2015, when the goals were adopted.

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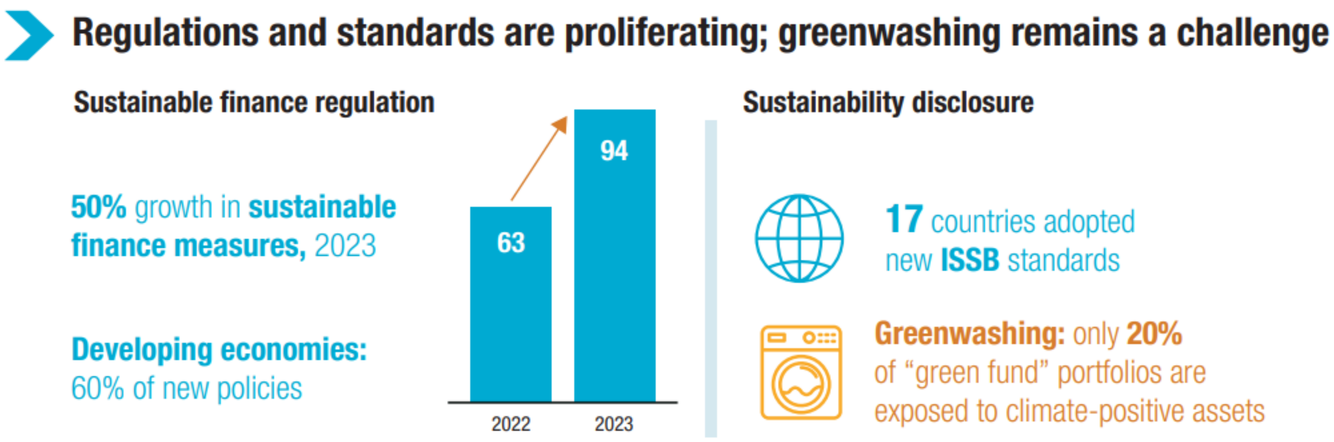
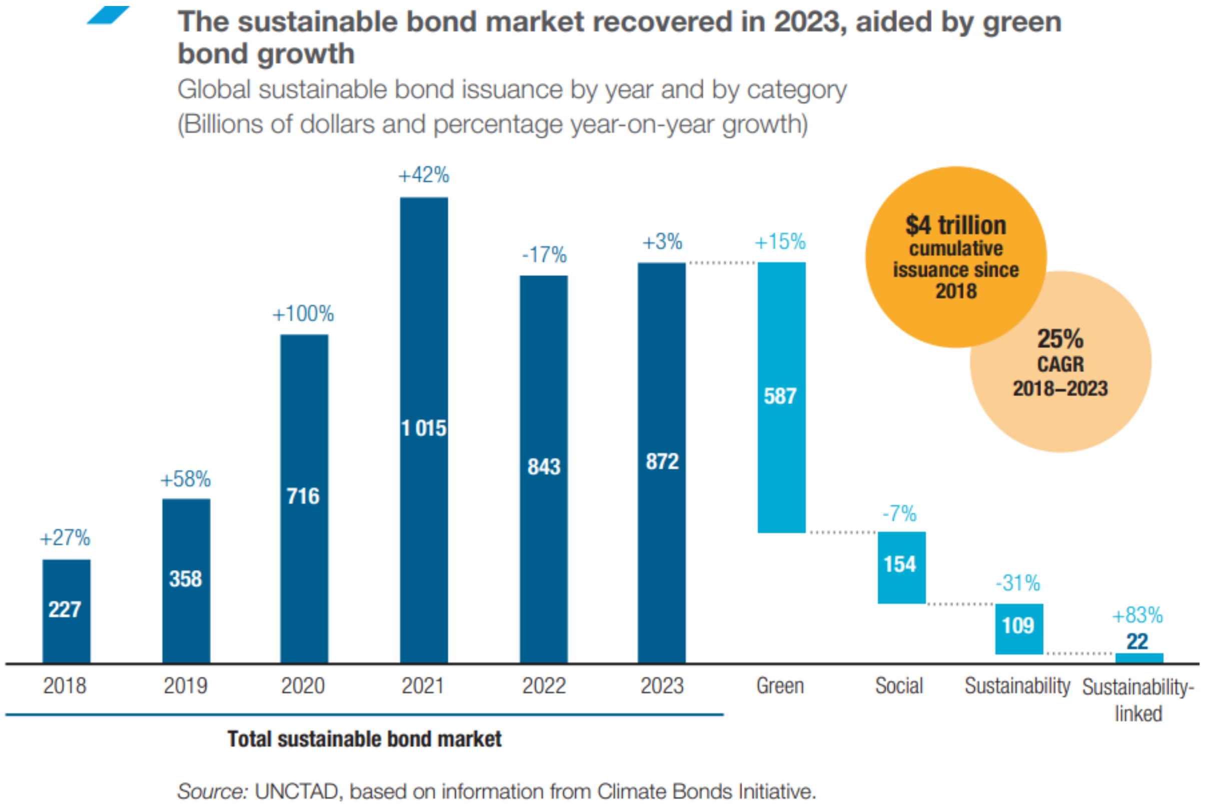
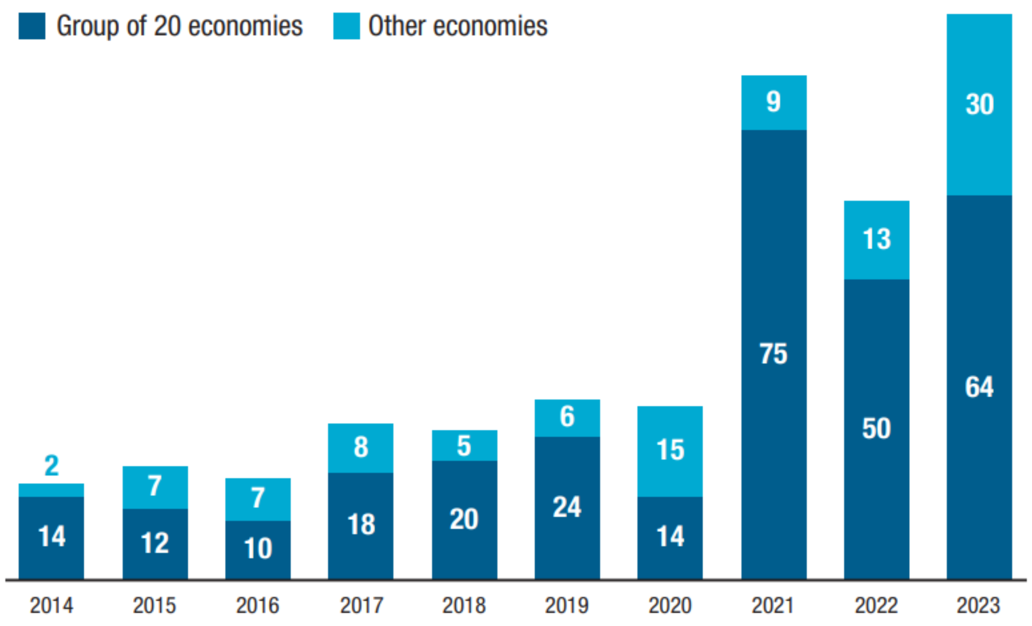


Although the picture is nuanced, the overall positive trend in the sustainable finance market points to continued investor confidence and the resilience of sustainable investment strategies.

- Sustainable bonds were the main drive of growth in sustainable capital marke products.
- Issuance climbed to $872 billion, a 3 per cent rise from 2022, bringing the cumulative value of the market since 2018 to more than $4 trillion.
- Net inflows dropped from $161 billion in 2022 to $63 billion in 2023.
- Greenwashing remains the most significant challenge to the sustainabl fund market.



Record level of new sustainable finance policy measures and regulations adopted in selected economies in 2023
(Number of measures adopted by year)



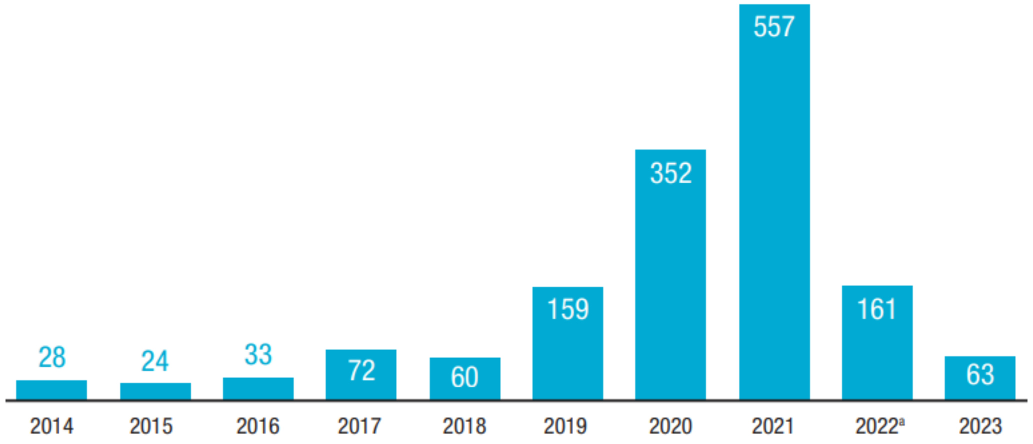
Source: Global Sustainable Finance Observatory (GSFO.org), based on UNCTAD, PRI and World Bank data.

- Number of sustainability-themed funds worldwide reached 7,485, up 7 per cent from 2022.
- Funds remain highly concentrated in Europe (73%) and the United States(9%) (per cent of the global market)
- Share of the market in the rest of the world increased slightly, from 16 per cent to 19 per cent

Due to challenging macroeconomic environment and persistent geopolitical risks, some investors have remained cautious about ESG investing

Overall underperformance in 2022 and lukewarm returns from popular sustainable investment assets, such as renewables, in 2023.

Net flows to sustainable funds continued their slide in 2023
(Billions of dollars)



Source: UNCTAD, based on Morningstar data.

Sustainable Finance Market Regional Insights

North America

- **Strong growth**, especially in corporate ESG bonds and green finance post-Inflation Reduction Act incentives.
- **Transition finance** gaining traction (e.g., clean tech, low-carbon fuels).
- But **high uncertainty and pessimism** due to withdrawal from Paris Agreement.

Europe

- **Largest and most mature** sustainable finance market.
- Driven by the **EU Green Deal**, **EU Taxonomy**, **SFDR**, and strong investor demand.
- Rapid rise in **sustainability-linked bonds and loans** among corporates.

Asia-Pacific

- **China leads** in green bond issuance, but social bonds and SLBs are growing.
- Japan, Singapore, and Hong Kong positioning as **green finance hubs.**
- **ASEAN countries** adopting sustainable finance taxonomies to harmonize markets.

Latin America

- **Rapid growth** in sustainability-linked bonds, particularly in Brazil, Chile, and Mexico.
- **Agriculture, renewable energy, and social** projects are key focus areas.
- **Blended finance** initiatives (e.g., IDB Invest) crucial for de-risking investments.

Africa and Middle East

- **Green bond and blended finance activity** increasing, especially for infrastructure, energy, and adaptation projects.
- **Egypt, South Africa, and UAE** among the leaders with national strategies for green finance.
- Strong interest in **nature-based solutions** and **climate resilience finance.**

E N V I R O N M E N T A L   M A N A G E M E N T   C E N T R E   P V T   L T D

The Sustainable Finance Ecosystem

The Sustainable Finance Ecosystem

Regulatory Tools

Binding requirements steering markets towards sustainability

EU Green Deal, EU SFDR, CBE Regulation on Sustainable Finance, etc.

Voluntary Norms & Market-led Initiatives

Guidance for responsible action and build consensus on emerging standards

UN Principles for Responsible Investment, IFC Performance Standards, Glasgow Financial Alliance for Net Zero, etc.

Foundational Agreements

Global and National agreements setting the direction for sustainable finance

Paris Agreement, Kunming-Montreal Biodiversity Framework, etc.

Taxonomies

Definitions of what qualifies as sustainable

EU Taxonomy, China's Green Bond Endorsed Project Catalogue, etc.

Disclosure & Reporting

Improving accountability and trust in financial practices

IFRS S1 & S2, Global Reporting Initiative, etc.

Global Foundational Agreements

Why do they matter?

- *Sustainable finance doesn't exist in a vacuum* — it builds on global agreements that define what a **just, inclusive, and sustainable future** should look like.
- Global agreements create **the shared vision** and **legally binding commitments** that shape national policies, business practices, and investment priorities.
- They define the **environmental and social goals** that sustainable finance must support.
- They **anchor financial flows** to universally recognized development, climate, biodiversity, and human rights targets

Global Foundational Agreements

The Paris Agreement

- **Legally binding international treaty on climate change**. It was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, on 12 December 2015. It entered into force on 4 November 2016.
- Overarching goal of holding "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels."

Kunming-Montreal Global Biodiversity Framework (GBF)

- The **United Nations Biodiversity Conference (COP15)** ended in Montreal, Canada, on 19 December 2022 with this landmark agreement to **guide global action on nature** through to 2030.
- Includes concrete measures to halt and reverse nature loss, including **putting 30 per cent of the planet and 30 per cent of degraded ecosystems under protection by 2030.**

United Nations Convention to Combat Desertification (UNCCD)

- It is the legally binding framework set up to address desertification and the effects of drought.
- It was established in 1994 and has 197 Parties to the Convention.

Global Foundational Agreements

International Labour Organisation (ILO) Conventions

- ILO Conventions are **collection of international treaties** adopted by the ILO **that set standards for social and labor rights** across various topics
- They are **binding on member states that ratify them**, establishing legal obligations regarding labor practices.

Universal Declaration of Human Rights

- International document adopted by the United Nations General Assembly that **enshrines the rights and freedoms of all human beings.**

United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)

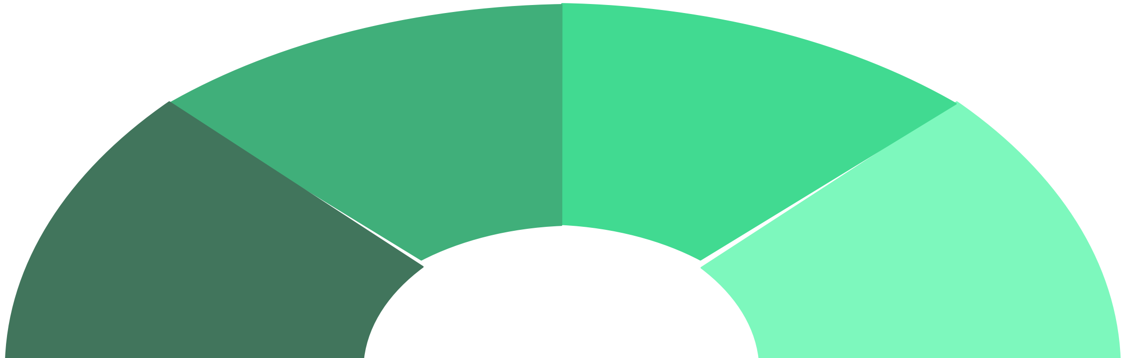
- It is a legally non-binding United Nations resolution passed by the United Nations in 2007 that **delineates and defines the individual and collective rights of indigenous peoples**, including their ownership rights, cultural and ceremonial expression, identity, language, employment, health, education, and other issues.
- It establishes a **universal framework of minimum standards** for the survival, dignity, wellbeing and rights of the world's indigenous peoples.

Convention on the Elimination of All Forms of Discrimination against Women (CEDAW)

- As the **primary international legal instrument** for the promotion and protection of women's rights, the Convention recognizes gender equality and prohibits discrimination against women in all spheres, including the private and public spheres.

Why are Regulations Important?

- Create **binding obligations** that move beyond voluntary commitments.
- Hold market actors **accountable** for sustainability performance and reporting.
- **Reduce greenwashing risks** and build trust in sustainable finance markets.
- **Steer financial flows** toward sustainable economic activities at scale.



Regulatory Trends in Sustainable Finance

European Union

- Implementation of the **Corporate Sustainability Reporting Directive (CSRD)** and **EU Taxonomy** continues to advance, setting stringent disclosure requirements.
- **Corporate Sustainability Due Diligence Directive (CSDDD)** holds companies accountable for human rights and environmental impacts across their supply chains.

Asia Pacific

- Countries like Japan and South Korea are enhancing their sustainable finance frameworks, focusing on green taxonomies and climate risk disclosures.

Africa and Latin America

- Nations are developing localized sustainable finance guidelines, with emphasis on climate resilience and social development goals.

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Why are Standardized Definitions for Sustainability Necessary?

The Risk of Operating Without a Taxonomy

In the absence of a clear taxonomy, issuers may:

- **Misallocate proceeds** toward projects that do not meet climate or ESG thresholds
- Fail to deliver **verifiable environmental or social impact**
- Use vague or outdated criteria, leading to **investor backlash or regulatory sanctions**

Consequences

- **Loss of credibility**
- **Higher cost of capital** due to risk premiums
- Potential **regulatory penalties or delisting** from green/sustainable bond indexes

Example: An issuer labels a cement upgrade project as "green" without emissions thresholds—leading to negative investor coverage and downgrading by ESG ratings.

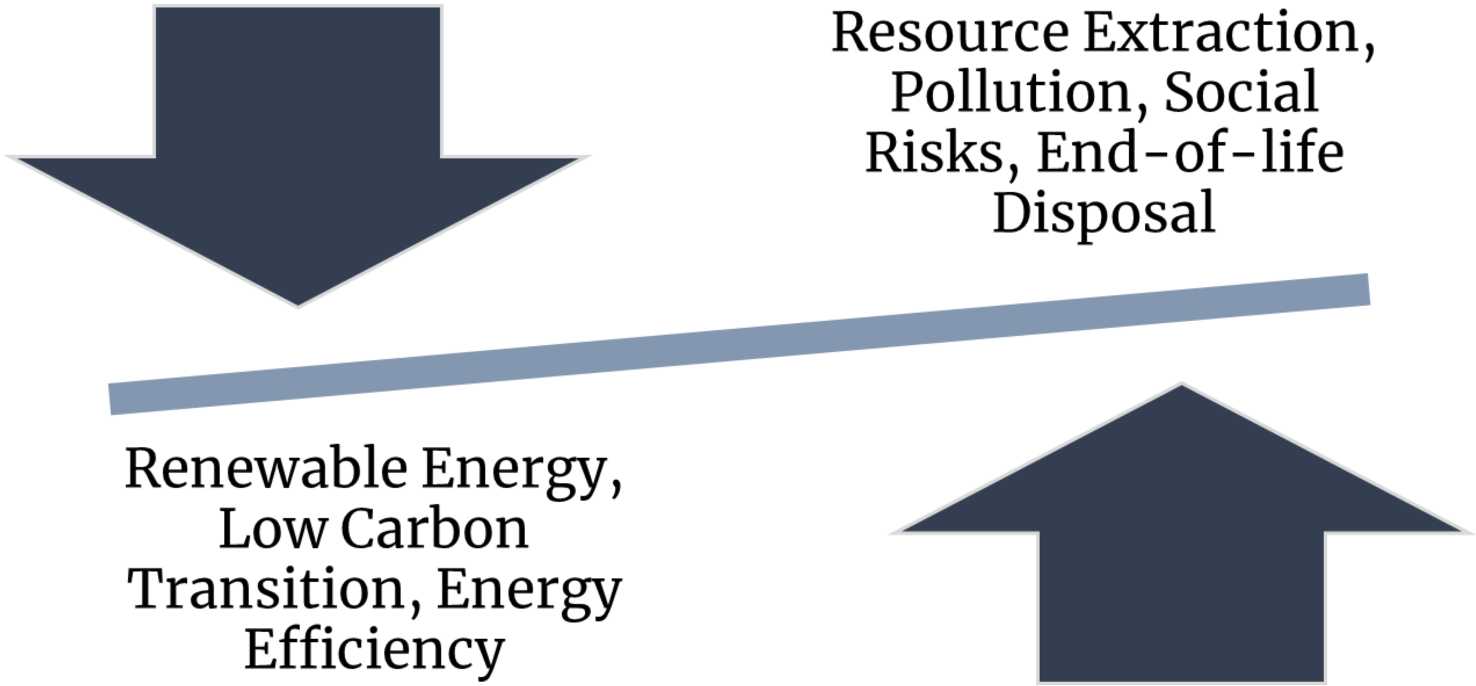
Sustainable Finance Taxonomy

What *is* Sustainable?

- **How do financial institutions decide what counts as "sustainable"?**
- Is it enough for an activity to reduce emissions?
- Does sustainability only mean "green"? What about social and economic sustainability?
- **Are batteries and wind turbines purely sustainable?**
- What about the mining of rare earth metals and lithium?
- Energy inputs and pollution from manufacturing?
- Waste and recycling at end-of-life?
- **What degree of sustainability is enough?**
- Is a project with 75% green outcomes and 25% harmful trade-offs sustainable?
- Who sets the threshold for "green enough"?

Impact of Development: Need for Taxonomy

Sustainable Development is not black & white. Here, Sustainable Finance Taxonomies bring clarity, nuance, and accountability to what financial institutions should support.



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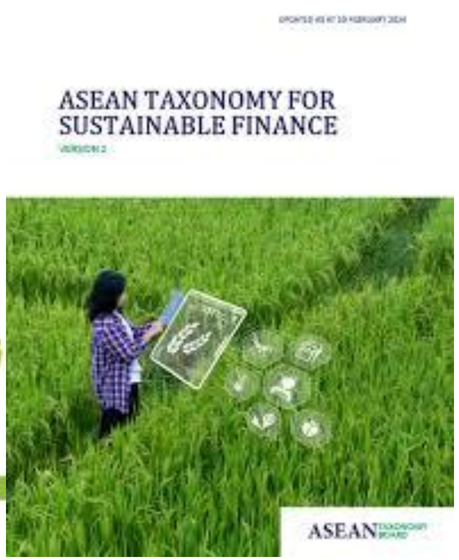
What is a Sustainable Finance Taxonomy?

- A sustainable finance taxonomy is a classification system that **defines what qualifies as an environmentally or socially sustainable economic activity**.
- It offers clear, science-based criteria to ensure **consistency, credibility, and comparability** in sustainable investment and lending.
- Without a taxonomy, "sustainable finance" risks becoming **subjective and fragmented**.



Link between Sustainable Finance Taxonomy and ESG

***Together*, they help financial institutions know where to go and how to get there safely.**

- **Taxonomy is the map.**
- It shows where the sustainable routes are which activities are aligned with climate, environmental, and social goals.
- Like a map, it provides boundaries, categories, and directions.

Taxonomy

- **ESG is the Compass**
- ESG factors guide institutions in how to navigate sustainability risks and opportunities.
- It points out which direction one is heading in. It indicates whether one is managing risks well or drifting off course.

ESG

Taxonomies Create the Foundation for Reporting and Impact Measurement

Verification Base

Provides a **basis for verification and third-party assurance**

Performance Tracking

Enable tracking against **KPIs and climate targets**

Clear Thresholds

Define thresholds for inclusion (e.g., gCO_2/kWh)

Real Benefits:

- Facilitates **alignment with reporting bodies like ISSB, and EU SFDR**
- Supports **better risk-weighting in ESG investing**
- Attracts **lower cost of capital** through higher transparency

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Global Developments in Taxonomy

- **47** sustainable finance taxonomies or lists of eligible activities have been issued globally since 2012. **31** are national taxonomies, issued by **20** different countries**.**

- **All countries address climate change** in their taxonomies. **27** identify multiple "green" objectives, such as climate mitigation, adaptation, pollution prevention, circular economy, protection of water resources, and biodiversity.

- **11** taxonomies focus only on climate change, and a small but **growing number support social objectives** (e.g., healthcare, food security, financial inclusion, education), blue economy (water and oceans), and the SDGs.

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Diverse Approaches to Taxonomy

No One-Size-Fits-All

- There is **no universally agreed approach** to developing taxonomies.
- Approaches range from:
  - Highly detailed with specific screens and thresholds for activity eligibility like EU taxonomy.
  - To **principles-based** frameworks (e.g. **ASEAN**) offering high-level guidance on green investment.

From Voluntary to Regulatory

- In many regions, taxonomies are **voluntary tools** that financial institutions use to guide sustainability-linked finance.
- But in countries **like Bangladesh, China, Colombia, and Mexico**, they've been integrated into **mandatory regulation**:
  - For reporting, disclosure, and sometimes financial supervision.

Key Risk: Fragmentation and Divergence

- A growing number of taxonomies risks **inconsistent definitions**, creating:
  - **Higher transaction costs** for cross-border investments.
  - **Market confusion** and misalignment between jurisdictions.

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Taxonomies in Asian Countries

Asian taxonomies are voluntary , lacking the EU's mandatory disclosure, raising accountability concerns.

Transition finance is critical, with ASEAN's traffic light system offering a structured approach to categorizing such activities.

Treatment of fossil fuels varies, with Indonesia controversially allowing some new coal plants as "green."

South Korea's taxonomy is a limited pilot, with unclear future scope and limited application.

The Singapore taxonomy is the most comprehensive , using rigorous criteria and sunset clauses for transition sectors.

Hong Kong's taxonomy aligns with the EU, but lacks DNSH and MS safeguards.

Philippines and Malaysia use principle-based taxonomies, which lack strict quantitative criteria but exclude coal.

Thailand's taxonomy excludes coal and new gas plants, indicating a stricter environmental stance.

Japan lacks a taxonomy, setting it apart from other major Asian economies

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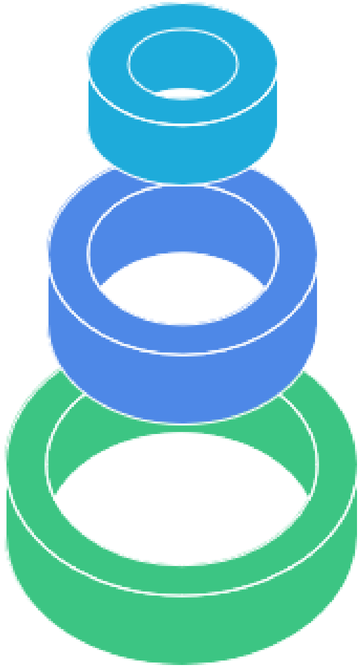
Voluntary Norms and Market Led Initiatives

As the momentum toward sustainability accelerates, **voluntary and market-led initiatives and principles** complementing regulatory frameworks, have emerged to ***guide financial institutions in aligning with global climate, social, and development goals.***

Global Principles
Set voluntary commitments for investors, banks, and insurers to integrate ESG considerations into decision-making.

E&S Safeguards
Establish good practices for managing risks in projects and investments

Market-led Alliances
Mobilize financial actors toward shared net-zero targets and sustainable finance practices.



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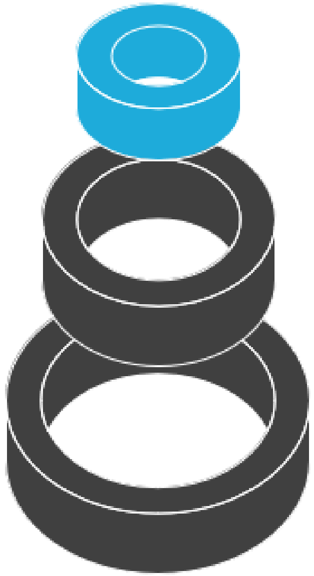
Global Principles for Responsible Finance

PRI Principles for Responsible Investment

PSI Principles for Sustainable Insurance

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

- **<u>Principles-based frameworks</u>** have emerged as powerful tools to shift the financial system toward long-term value creation and sustainability.
- Global principles for responsible finance provide a **<u>high-level, values-based foundation</u>** for financial institutions to integrate ESG considerations into their strategy, operations, and decision-making.
- They serve as a **<u>moral and strategic compass</u>** for financial institutions—defining what responsible finance looks like and how it should respond to global challenges.
- They **signal leadership**, **shape expectations**, and **accelerate finance's evolution** from *<u>shareholder value to shared value.</u>*



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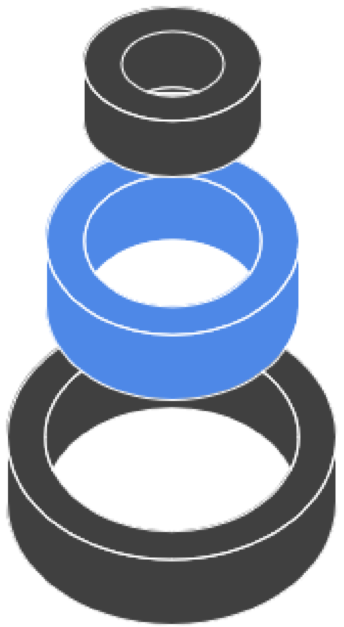
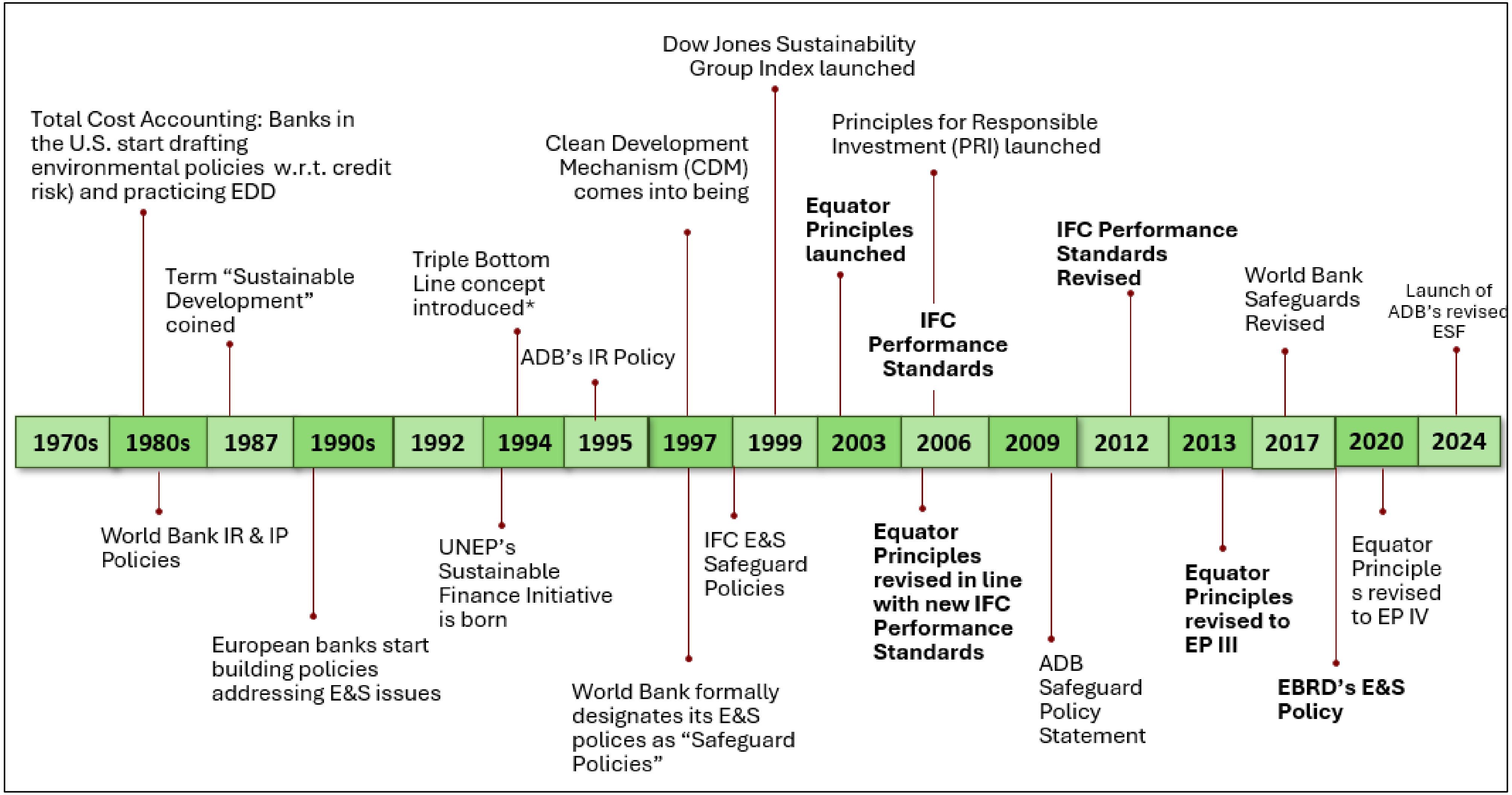
E&S Safeguards

- Financial institutions operate in a world where E&S issues **directly impact project and client viability.**
- There is also a growing expectation that financial institutions not only capitalize on E&S opportunities but also **take proactive steps to avoid significant harm**.
- E&S safeguards provide the **operational backbone** for doing this responsibly, by:
  - Defining standards to **assess, avoid, and mitigate** E&S risks in financial decision-making
  - Promoting **consistency and due diligence** across institutions, sectors, and geographies
  - **Raising the bar** on what is considered acceptable financing, particularly in **high-risk sectors and complex projects**
  - Empowering institutions to **identify reputational, legal, and financial risks** early—and manage them proactively



Global Evolution of E&S Safeguards for FIs



Key E&S Safeguards applicable for FIs

Standard	Overview	Key features
IFC Performance Standards (IFC PS)	A set of **eight benchmarks** developed to guide private sector clients in managing environmental and social risks and impacts. **Widely used in project finance.**	Forms the backbone of many international standards, including the Equator Principles.
EBRD Environmental and Social Policy & Performance Requirements	Applies **ten Performance Requirements**, aligned with but broader than IFC PS, covering issues like **labor, biodiversity, and vulnerable groups**.	Includes explicit commitments to human rights and transition goals such as gender equality and inclusion.
Equator Principles (EPs)	A risk management framework for determining, assessing and managing environmental and social risk in project finance. Based largely on IFC PS.	Voluntarily adopted by over 130 financial institutions globally; applies to large-scale infrastructure and industrial projects.

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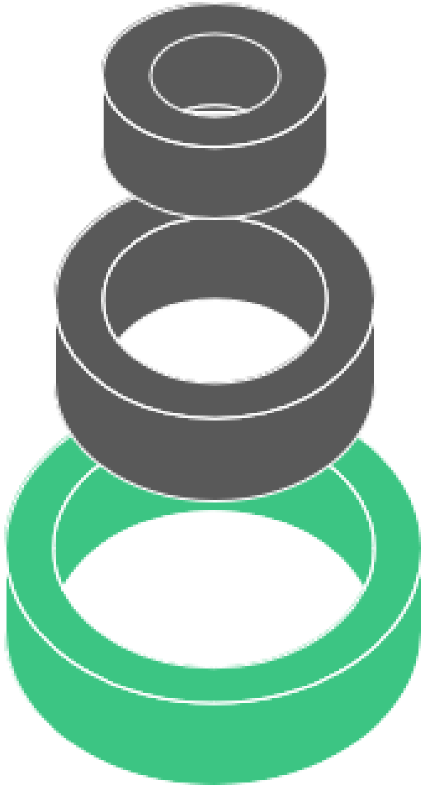
Global Market-led Alliances driving Sustainable Finance

In response to growing climate risks, policy momentum, and investor pressure, market actors have come together to form **global alliances** that accelerate the financial sector's transition to sustainability.

These alliances are **voluntary, peer-driven initiatives** that set **sector-specific targets and norms**, promote good practices, and enable coordinated action toward net-zero and SDGs.

These platforms also promote **capacity building, data transparency, and innovation**, particularly in emerging markets where sustainable finance ecosystems are still evolving.



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Other Key Alliances

Glasgow Financial Alliance for Net Zero (GFNAZ)- A global coalition of financial institutions committed to accelerating decarbonization and climate action

Net-Zero Banking Alliance (NZBA) - A coalition of banks committed to aligning their lending and investment portfolios with net-zero emissions by 2050.

Net-Zero Asset Owners Alliance (NZAOA) - An alliance of institutional investors managing assets worth trillions who pledge to transition their investment portfolios to net-zero greenhouse gas emissions by 2050.

Net Zero Insurance Alliance (NZIA) - A group of leading insurers and reinsurers committed to transitioning their underwriting portfolios to net-zero greenhouse gas emissions by 2050.

Net Zero Investment Consultants Initiative (NZICI) - An initiative of investment consultants working to support their clients in achieving net-zero investment portfolios by 2050.

Net-Zero Financial Service Providers Alliance (NZFSPA) - An alliance of financial service providers across various sectors committing to align their services and operations with net-zero emissions pathways.

Paris Aligned Asset Owners (PAAO) - A network of asset owners committed to implementing investment strategies consistent with limiting global warming to 1.5°C as outlined in the Paris Agreement

Other Market Led Operations

SUSTAINABLE BANKING and FINANCE NETWORK

Platform for knowledge sharing and capacity building on sustainable finance for financial sector regulators and industry associations across emerging markets..

PCAF Partnership for Carbon Accounting Financials

Global coalition of financial institutions working to create a synchronized approach for assessing and disclosing greenhouse gas (GHG) emissions associated with their loans and investments.

NGFS Central Banks and Supervisors Network for Greening the Financial System

Network of central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role for climate change.

Disclosures and Risk Focused Reports

CDP Climate Disclosure

Voluntary disclosure system for **environmental impacts** (climate, water, forests)

Increasingly used for **benchmarking and investor engagement**.

Task Force on Climate-related Financial Disclosures (TCFD)

Risk-based climate disclosures across governance, strategy, risk management, and metrics.

Mandatory in several jurisdictions such as the UK.

Task Force on Nature-related Financial Disclosures (TNFD)

Builds on TCFD; focuses on **nature and biodiversity-related** risks.

Final recommendations released in 2023.

IFRS S1 & S2

New global baseline for sustainability-related (S1) and climate-related (S2) disclosures.

Designed to **consolidate TCFD, SASB, and more.**

Sustainability and Impact Performance Reports

Sustainability Reporting Frameworks are structured methodologies and universal or sector-specific standards to guide what, how, and where companies disclose ESG data.

Global Reporting Initiative™

SUSTAINABILITY ACCOUNTING STANDARDS BOARD
SASB

<IR>

Sustainability Disclosures and Reporting

Transparency & Alignment

Clear, consistent disclosures help investors and stakeholders understand **how capital is aligned with sustainability goals**.

Risk Assessment

Financial institutions need reliable information on environmental and social risks to **assess materiality and price risk appropriately**.

Data-Driven Accountability

Disclosure requirements ensure that institutions are not just pledging sustainability — **they're proving it with data**.

Benchmarking

Harmonized reporting enables **benchmarking and comparability** across companies and portfolios, facilitating informed capital allocation.

Regulatory Compliance

It's no longer optional – With regulators enforcing ESG disclosure regimes, institutions lagging behind face **reputational and compliance risks**.

What Do Banks Need to Report?

Allocation Reporting

Describes **how funds are distributed** across instruments, sectors, geographies, and thematic areas (e.g. climate, biodiversity, social inclusion).

Impact Reporting

Assesses the **environmental and social outcomes** of financed activities—both **positive contributions** and any **adverse effects**.

Governing Principles

Reporting is governed by principles like the **ICMA Principles and the Harmonized Framework for Impact Reporting**, offering practical guidance for financial institutions.

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What Reports do Banks Publish?

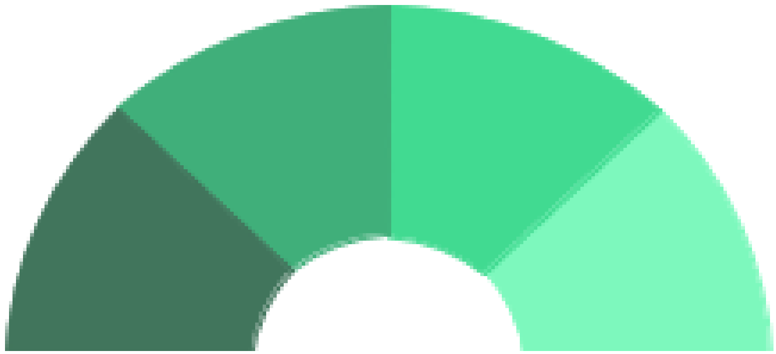
Beyond reporting on individual instruments, financial institutions are increasingly required to disclose how ***sustainability issues affect their overall business****, and vice versa.*

Disclosure & Risk-Focused Reports

Reports that analyze how environmental and social factors impact a bank's financial performance, risk profile, and strategy.

Sustainability & Impact Performance Reports

Reports that measure and communicate the environmental and social impacts of a bank's lending and investment activities.



Jurisdictions like the EU, UK, and ISSB-aligned countries are moving toward **mandatory adoption**. Reporting will increasingly shift from voluntary to mandatory, with **convergence on metrics, assurance, and auditability**.

ISSB and IFRS Sustainability Disclosure Standards

- The International Sustainability Standards Board (ISSB) was established by the **IFRS Foundation in 2021.**
- Aims to **create a global baseline** of high-quality, comparable, and investor-relevant sustainability disclosures.
- Addresses the **fragmentation of ESG reporting** by consolidating frameworks like SASB and TCFD.

IFRS S1 – General Requirements

- Provides the **core framework** for disclosing material sustainability-related risks and opportunities.
- Applies across **all sustainability topics** (e.g., climate, biodiversity, social).

IFRS S2 – Climate-Related Disclosures

- Focuses specifically on **climate-related risks and opportunities.**

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Emerging Headwinds

- **US Withdrawal from the Paris Agreement** in 2025 is a major setback to global climate leadership and cooperation.
- The US also rollbacked on emissions standards, expanded fossil fuel leasing, and **weakened environmental regulations and markets.**
- Following this, **European and Asian investors also cut down their ESG investments** by \$1.2bn and \$8.6bn respectively, by far the highest withdrawal figure ever seen.
- **Short-term energy security concerns** globally are also slowing down clean energy transitions.
- *Sustainable finance community now faces its defining moment: capitulate to short-term pressures or hold the line on the systemic transformation of our collective future demands*

Trump issues executive order to block state-level climate regulations

The move is part of the US administration's broader strategy to boost domestic energy production.

April 9, 2025

Source: Energy Monitor (2025)

ESG fund outflows hit record as sustainable investing backlash grows

European investors pull money from sector for first time in sign that US scepticism of 'woke capitalism' is spreading

Source: The Financial Times (2025)

Challenges in Sustainable Finance

- Greenwashing and challenges of standardization
- Data quality and availability issues
- Trade-offs between returns and impact
- Complexity of ESG measurement
- Regulatory fragmentation across jurisdictions
- Limited expertise and capacity

Key Takeaways

- Sustainable finance is becoming the new standard, not a niche market
- ESG factors are increasingly material to financial performance
- Regulatory requirements are expanding globally
- Early adoption provides competitive advantages
- Collaboration and standardization are essential for market development

Let’s Summarize through this video:

[What is Sustainable Finance?]

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Thank you!

Let's Connect!

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