PREVENT PLASTICS

switchasia GRANTS PROGRAMME

Funded by the European Union

EXECUTIVE SUMMARY
GREENFINANCE

sequa

ADFIAP financing sustainable development

SMART Myanmar

WWF

Yever smarter together

EXECUTIVE SUMMARY

The Green Finance Guidebook is a product of the 4-year involvement of ADFIAP in the SMART Myanmar 2.0 Project. The guidebook was borne out of the desire of both ADFIAP and the SMART Myanmar Project Management Office to be counted as major contributors to Myanmar's Nationally Determined Contributions (NDCs) to the Paris Agreement of 2015. This major output will certainly lead to laying out the foundation for a low carbon, climate resilient economy in Myanmar. This would hopefully also encourage Myanmar's private sector and more MSMEs to be major players in the country's economic development by pursuing sustainable green investments in the next 10-15 years.

In a national scoping study conducted by ADFIAP for the International Finance Corporation (IFC) on the "Risk Management Practices of Commercial Banks in Myanmar"[1] in September 2018, among the study's major findings were the absence of a conducive regulatory environment, the internal lack of capacity and the need for senior management or board-level commitment to environmental and social (E&S) performance. It is towards this end that this Green Finance Guidebook will hopefully close the gaps between its operating environment and its internal requirements through capacity building public awareness activities and other knowledge sharing and skills upgrading interventions for both commercial banks and the regulators on sustainable banking and practices in Myanmar. Similarly, MSMEs were capacitated to make them more bankable and facilitate their access to finance. In the end, greening the entire banking sector in Myanmar would lead to capacitating the banking sectors in its investing and lending activities to deliver more sustainable, short-term and long-term developmental and financially viable results.

Financial institutions such as banks play a critical role in the national economy in terms of resource allocation such as capital and risk. In the present context of Myanmar's economic development, there are unprecedented levels of carbon in the atmosphere which led to an increase in global warming and greenhouse gas emissions. In this chaotic and toxic environment, climate change creates physical risks (e.g. floods in Myanmar are prevalent), and the move to a low-carbon economy will create transition risks in terms of policy and technological changes. Myanmar faces severe risks of weather-related impacts and was ranked the 2nd most vulnerable country to climate change from 2000 to 2019 according to the Global Climate Risk Index, with significant human impacts and economic losses. These physical and transition risks, in turn, create financial risks manifesting as credit, market and technical risks. The financial risks from climate change present unique challenges for financial institutions. They require a strategic approach that should consider how our decisions today can or will impact future financial risks. An orderly transition would minimize the financial risks associated with climate change. It is in this context that the Guidebook would advocate the concept of sustainable finance and green finance in the transition towards a low-carbon, climate-resilient economy for Myanmar, a country highly susceptible to climate change-related impacts and environmental degradation. [2]

1 ADFIAP. "Risk Management Practices of Commercial Banks in Myanmar." A national research study report conducted by ADFIAP (Norman A. Tilos, Corazon D. Conde and Victor C. Abainza) for the International Finance Corporation (Vietnam). September 2018.

2 PRA Bank of England. "How Climate Change Can Present Financial Risks to the Banking Sector." 2018.

In the same context, sustainable finance can be described in terms of several stages of development. The first is climate finance which will be the financing for climate change mitigation and adaptation projects. The second stage is when we transition to green finance, which would encompass the key factors in climate finance plus analyzing other environmental factors. The third stage is when green finance moves to cover social and environmental factors, then it becomes socio-environmental financing. Finally, when it covers environmental, social, plus governance, it becomes sustainable development finance.[3]

3 Adapted from the definition of sustainable finance from the presentation of Dr. Colin Legarda Hubo, Executive Director of UA&P Center for Social Responsibility during the 2nd Sustainable Finance Forum last October 8, 2019, at the Manila Peninsula Hotel.

The Guidebook is divided into two (2) main sections

- In the the first section, we discuss and describe the concept of sustainable consumption and production (SCP) and how this holistic conceptual framework has evolved into advocacy for sustainable finance. SCP as a concept is the “aspiration for a higher quality of life for society” through responsible consumption and sustainable production practices. It further discusses how financial institutions can play a proactive role in the promotion of sustainable development not only through their financing function but also by engaging actively in their social role in the community by encouraging and supporting environmental, social and governance programs and activities. Finally, this section ends with a discussion of the what and why’s of Green Finance and a discussion on the typical green investments.
- The second section of the guidebook is focused on a thorough review of the core business operation in the context of the Green Finance framework – that presupposes that the Loan Evaluation Process is the heart and soul of the ESG and risk management assessment. The readers are then introduced to how to conduct a credit risk assessment of a green project by reviewing the key factors to consider in evaluating/analyzing a loan proposal from its market, technical, management and financial aspects. Since the guidebook focuses on the evaluation of green projects, a key in the credit risk evaluation process is the conduct of environmental and social due diligence. This is an extension of the credit risk assessment to ensure that potential environmental and social risks of a particular project are analyzed and looked into and that appropriate mitigants are put in place by the Bank and thus ensure that the project and both the bank and the borrower are not vulnerable to risk. The loan evaluation process is rounded off by a discussion on green credit scoring with its step by step procedure, loan pricing and provisioning and loan covenants and documentation.

CONCEPT OF SUSTAINABLE CONSUMPTION AND PRODUCTION (SCP)

SCP as a concept is the “aspiration for a higher quality of life for society” through responsible consumption and sustainable production practices

Green Finance Framework

An integral part of the core business operations is Project Supervision and Monitoring, which normally involves the assessment of actual project performance compared to what has been projected during project evaluation. This would give the loan officer an indication of whether or not the credit quality has remained the same, improved or deteriorated. There are also early warning signals that a loan officer can consider in the conduct of project supervision and monitoring. Remedial Management was thereafter discussed, which completes the three components in the core business operations of the Green Finance Framework.

Finally, the guidebook ends with a discussion on how to undertake a sustainable management action that would support the bank in expanding its product offerings for Green Financing. The Business Model Canvas was introduced as a framework for a holistic approach in developing and implementing sustainable project proposals.

PREVENT PLASTICS

switch asia
GRANTS PROGRAMME

Funded by the European Union

"Greening the entire banking sector in Myanmar would lead to capacitating the banking sectors in its investing and lending activities to deliver more sustainable, short-term and long-term developmental and financially viable results"

sequa

ADFIAP financing sustainable development

SMART Myanmar

WWF

Yever smarter together