II. SUSTAINABLE FINANCE FORUM

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Aligning the financial system with sustainable development is recognized today as a pressing need by public and private actors alike.

The fast depletion of natural resources and the increase in social tension linked to industrial growth and globalization, has led to a growing awareness of the urgent need for sustainable business models. Maintaining a business-as-usual model carries with it significant environmental and social risks and technological developments which make communication much easier and information more accessible to a wide range of stakeholders, are increasingly putting businesses on the spot.

Businesses have a strong interest to ensure that such risks do not occur, and to manage existing projects with an approach that focuses on multi-stakeholder engagement in which finance sector can play a crucial role.

While rigorous ESG screening and management of current ‘business as usual’ activities may help companies to reduce their risks, the transition to a sustainable economy is dependent on sufficient capital being allocated to new “green” sectors. Recent global trends send positive signals as follows:

- Clean energy technologies are emerging as new asset class
- There is a significant increase in new investment in sustainable energy
- The global climate bonds market doubled from 2011 to 2012 to reach $346 billion.
- Globally traded carbon markets are emerging
- New markets associated with more effective management of natural resources are occurring
- Financial inclusion and microfinance products are in the companies’ agenda

Furthermore, there are collaborative initiatives such as Banking Environment Initiative, Equator Principles, FTSE4Good, Principles for Responsible Investment, Principles for Sustainable Insurance, Sustainability Indexes, The Climate Principles as well as institutions such as Global Compact, WBCSD and its Turkish network, SKD Türkiye, UNEP FI focusing on the issue for the finance sector.

Only through collective action can the transition to a sustainable economy be attained. Given their leverage and influence potential over business conduct across all sectors of economy, financial institutions have a key role to play in contributing to this transition.

This paper is built upon the panel discussions and key messages at the II. Sustainable Finance Forum (2014) which aimed at putting the subject of “shared responsibility for a more sustainable economic development” on the agenda of various stakeholders in Turkey, including financial institutions, regulatory bodies, wider private sector, NGOs, media, academia and public officials.
Identifying Current Issues Related to Sustainable Finance in Turkey

Sustainability requires multi-dimensional efforts and lays responsibility on all the stakeholders. This can only be accomplished through the collaborative involvement of all actors including the real sector, the financial sector, policy makers and a social environment that demands and is capable of absorbing the products and services that are created through such initiatives.

Through collaboration with all stakeholders to advance the sustainable development agenda, the finance sector can reap multiple benefits:

- build business resilience in front of increasing environmental and social risks
- explore new asset classes and customer groups related to environmental and social considerations
- contribute to the progress of a stable and implementable regulatory environment that favors sustainable, and thus more stable and resilient, financial sector.
- by effectively collaborating with the real sector, act as a catalyst for positive change and support sustainability goals of the policy-makers

By implementing sustainability both at company and client levels, financial institutions can have a significant positive impact on the sustainable development agenda, and benefit society as a whole.

Even though certain financial institutions have already included, or are on their way to include environmental, social and governance criteria in their financing processes, sustainability is not yet mainstreamed in the financial sector, and difficulties to implement the already existing initiatives and principles do persist. The development of inclusive financial business models is a particularly relevant issue in Turkey; opportunities should be provided to vulnerable groups which do not have sufficient access to financial resources, such as lower socio-economic segments and women.

For financial institutions to be able to make informed decisions, in line with their sustainability targets, data on the sustainability performance of financed and investee companies should be scaled up; encouraging transparent sustainability reporting is critical.

Taking these topics into consideration, the following issues were raised during the II. Sustainable Finance Forum as problem areas that require attention:

1. **Low awareness of real sector companies on sustainability risks and opportunities**

   Banks’ or investors’ requests from clients and investees for the inclusion of environmental and social risk considerations and management systems in the financing process, with financing conditions being determined accordingly, may be considered an extra financial and unjustified burden by the real sector. They assume a reactive attitude against issues such as the screening of the company’s environmental and social impacts, minimization of such impacts or creation of a positive impact, and stakeholder management starting from the project planning phase. These are perceived as unnecessary intrusions in the company’s business, and the relationship between sustainability and healthy business performance is overlooked.

2. **There is no level playing field regarding ESG risk criteria; banks that manage ESG risks may face a competitive disadvantage**
In the banking sector specifically, companies that apply for loans might prefer banks that do not analyze the environmental and social impacts of financed activities, putting responsible banks at an initial stage of disadvantage (front-runner cost). Therefore, introducing environmental and social risk assessment systems becomes a competitive issue for banks. Aside from lack of awareness of clients on sustainability issues, the introduction of environmental and social risk management systems can be undermined by the lack of understanding by banks of the long-term benefits of having such system in place, as well as by the lack of a common playing field on sustainable banking.

3. **ESG assessment requires investment in time, people and skills.**

   Environmental and social impact assessment may require additional funding and necessitates additional human resources. As a result, its application to all financial services is difficult; financial institutions are faced with financial and human resource capacity problems, as well as the still underdeveloped expertise at country level on how to set-up environmental and social risk management systems which can then become fully operational and effective long-term within the bank. While there are some good examples of environmental risk management systems in financial sector, there is a huge room for improvement in setting social impact assessment systems.

4. **Consistency and transparency of sustainability data is a challenge**

   The transparency and accuracy of data on sustainability performance is questioned by certain stakeholders and there is a general lack of confidence in this respect. Commonplace sustainability indicators have not gained sector-wide acceptance. The reporting infrastructure of financial institutions is overwhelmingly focused on financial data. As a result, reporting on sustainability is a more cumbersome process and assuring the data becomes additionally difficult. Furthermore, the lack of consensus on sustainability reporting globally has a negative impact on local practices.

5. **Banks are actively engaged, but other key players in the financial sector (insurers, investors) are not moving in alignment**

   In terms of the financial sector itself, initiatives have developed over the past few years to scale up sustainability within the banking sector, and the investor community; the dialogue between these different initiatives are still at initial stage, and the inclusion of insurance, as an important segment of the finance industry, in the sustainability debate, is yet to be done.

6. **Sensitive segments – women**

   Women still largely encounter difficulties in ensuring their own economic sustainability and in accessing financial instruments for entrepreneurship. Job-holder women are still faced with challenges when trying to develop and maintain a business life that include both availability of finance and financial know-how. The low rate of financial literacy rate among women hampers their access to finance by creating barriers in terms of procuring funding, managing their business and availing themselves of opportunities.
Suggested Solutions:

Regarding to above mentioned problem areas that were raised during the II. Sustainable Finance Forum, proposals below have been made to support the sector more broadly. These include:

- Efforts should be made for sustainability criteria to be embraced by more financial institutions by taking the competitive structure of the financial sector into consideration but also seeing the benefits of collaborative, knowledge-sharing models. Financial institutions play an important role in increasing the number of real sector companies that consider environmental and social factors in their decision-making processes. Banks’ reshaping their expectations vis-à-vis financing requests, investors reviewing their selection process when identifying investment opportunities and managing their investment portfolio accordingly, insurers considering environmental and social risks when evaluating and underwriting risks, will all contribute to creating a multiplier effect on the proliferation of the sustainability perception in Turkey.

- Platforms where various players from the finance sector could gather and discuss sustainability related challenges, gaps and opportunities, should be used more actively; both per segment of the finance industry (banks, investors and insurers) and amongst the various players of the financial system as a whole. The sector will gain a better understanding about the issue at hand through collaborative endeavors. Currently, there are a few of good examples of sustainable finance working groups which are organized by different players such as SKD Turkiye, Global Compact Turkey and TBB as well as the Sustainability Platform chaired by Borsa İstanbul. Yet, these working groups mostly have members from the banking sector and the scope of the members could be expanded to other finance sector players.

- The regular inclusion of the voices of other profiles of stakeholders, such as NGOs, government, real sector representatives, in such platforms, or other type of engagement, should be further stimulated; such engagement would contribute to the finance sector making informed decisions when adopting common or individual approaches to sustainability.

- At the institutional level, financial institutions should ensure that environmental and social criteria are integrated to financing models and communicated to project owners, especially in projects with high impact potential. Dialogue with clients and investees should include making the business case, and clarifying the rationale behind identifying, assessing and mitigating environmental and social risk – providing examples of business delays or cancellations, loss of reputation, environmental liabilities, loss of market share, and increasing pressure from consumers and civil society for financial institutions’ to insert sustainability criteria as a financing precondition.

- Positioning sustainability as a fundamental element of corporate policy and company culture is crucial. While each institution may have a unique approach to integrating sustainability within their operations and governance structure, doing so will help institutions overcome the challenge of employee engagement, rendering the institution a ‘preferred employer’ and able to attract skilled staff.

- Sustainability reporting of the real and financial sectors should be promoted and awareness about internationally recognized reporting initiatives, including existing available guidance on how to disclose environmental, social and governance issues, should be enhanced.
• Local sustainability initiatives do exist and should be further strengthened for sharing good practices, including on financial instruments for assessing company sustainability. Being in Borsa İstanbul’s Sustainability Index will be encouraging for companies to report on topics such as environment, biodiversity, climate change, human rights, supply chain, structure of board of directors, bribery, and health and safety.

• Sustainability is a vital means of communication but it should not be considered as a communication or public relations activity. It should be ensured that sustainability is integrated in daily operations and corporate strategy, embraced throughout the company and that all the units in the company participate to the achievement of the company’s sustainability targets.

• Financial literacy of women, youth and low socio-economic groups should be enhanced and encouraged so that they can manage their own finances. Additionally, cooperation with various stakeholders such as KAGİDER (Women Entrepreneurs Association of Turkey) and KOSGEB (Small and Medium Enterprises Development Organization) should be established for creating innovative financing models aimed at women, youth and low socio-economic groups.

Conclusion:

The adoption of sustainability criteria by the financial sector is an urgent need in the context of the rapid depletion of natural resources, increasing climate change risks, and societal problems arising from economic conditions. A sustainable finance approach bears considerable benefits for financial institutions, by not only helping them build a more resilient business, but also offering avenues for the development of new, creative, responsible asset classes. At the same, these benefits are felt by the society and economy as a whole: through exercising its leveraging capacity, the financial sector can positively influence business behavior.

However, financial sustainability cannot be considered single-dimensionally. It is important for all stakeholders to contribute to an ongoing discussion of sustainable finance. In addition, collaborative efforts to mainstreaming sustainability into the operations of the finance real sectors should be undertaken.

In this respect, we think it is beneficial to re-emphasize the following critical action points for Turkey:

• Raising awareness about “Shared Responsibility”, with clear definition as to who constitute the “stakeholders” and what are their roles in achieving sustainable finance.

• Having a vision of investment opportunities in green and inclusive economies.

• Creation of awareness on the need and value of sustainable finance, at the level of various stakeholders, with priority of: financial sector (banks, investors and insurers), wider corporate sector, relevant governmental bodies, clients.

• Fostering knowledge exchange within existing initiatives per segments of the financial sector (banks, investors, insurers), with increased outreach to national financial institutions to join these initiatives, and between the initiatives themselves;

• Further discussing and demystifying the “Social Impact” dimension of financed activities.