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THE POWER OF ESG IN AN INVESTMENT-LED GROWTH

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Economic, social, political, and environmental risks continue to plague the world today. In light of these emerging and increasingly interrelated threats, this paper underscores the need for the Philippines to pursue a more investment-led approach to sustain its economic trajectory. However, these investments must incorporate environmental, social, and governance (ESG) considerations to ensure a more resilient and inclusive growth and development.

An impending reversal of fortunes is pushing the world towards difficult times. Two centuries of unabated industrialization have scarred the economies of countries with dwindling raw materials to meet global demand for the production of goods. Even the water that people drink and the air they breathe are beginning to be dramatically polluted. Mankind's own survival faces unprecedented danger.

Decades back, some thought leaders have championed conscious balance in the use of resources after studying the traditions of indigenous peoples in different parts of the world. In their native cultures, these indigenous peoples seemed to show a natural harmony with their environment through traditions that suggested an understanding of the meaning of sustainability. Today, environment, social and governance (ESG) perspectives have gained much traction as companies shift to responsible stewardship, expanding further to related concerns in governance.

On the other hand, a multitude of political, economic, social, environmental, and technological risks continue to emerge. Over the past several years, the world has seen how a single threat can have a ripple effect of unprecedented proportions on various aspects of human life: from environmental to social, economic, and geopolitical. One example is the COVID-19 pandemic that first broke out as an epidemic in Wuhan, China in late 2019. As it eventually spread across the globe and forced governments to impose lockdowns and movement restrictions, the public health crisis not only resulted in the deaths of millions of people worldwide and exposed the weaknesses of countries' healthcare systems. It also led to economic contractions, great disruptions to the global supply chain, massive unemployment, widespread poverty and inequality, deeper digital divide, corruption scandals in government, pollution of the environment, and other socioeconomic repercussions that will take years to be reversed.

As a result, it is imperative for all stakeholders – from government, private sector, civil society, academe, and even individuals themselves – to exert a concerted effort to drive resilient economies and societies amid the rapidly emerging, complex, and intertwined risks. Today, many problems that originate as environmental in nature transform into medical emergencies and, ultimately, end up as major economic and geopolitical risks.

* THE VIEWS AND OPINIONS EXPRESSED IN THIS PAPER ARE THOSE OF THE AUTHOR AND DO NOT NECESSARILY REFLECT THOSE OF THE INSTITUTE.

THE COMPOUNDING GLOBAL RISKS

The *Global Risks Report 2023*[1] of the World Economic Forum (WEF) identified the cost-of-living crisis as the most severe global risk over the next two years (Figure 1). A prolonged cost-of-living crisis could lead to the most vulnerable groups in society being unable to access their basic needs, which can eventually stir social unrest and political instability. This can be further aggravated by the prolonged supply chain disruptions – leading to high inflation, interest rate hikes, and a continuing economic downturn – and by extreme weather events and energy shortages that could worsen the current cost-of-living crisis and culminate in widespread hunger and a global food supply crisis.

Meanwhile, over the next decade, climate and environmental risks are the top risks identified by the WEF.[2] It further noted that these environmental risks are the risks that humankind is least prepared for, considering the rising demand for resources from both the public and private sectors to mitigate other crises. Hence, in the absence of significant policy changes and investments in this area, the impact of climate change, biodiversity loss, and food security issues can hasten the collapse of natural ecosystems, jeopardize food supplies and livelihoods in climate-vulnerable economies, intensify natural disasters, and impede the advancements made in climate mitigation.

As shown in Figure 2, the short-term risks identified by governments and businesses vary. Notably, most of the severe risks identified by businesses are related to the environment and climate change.

In the case of the Philippines, the top risks are quite different. According to the WEF,[3] the top risk that are most likely to pose the biggest threat to the Philippines in the short-term are natural disasters and extreme weather events, followed by debt crises, rapid and/or sustained inflation, misinformation, and geopolitical contestation of resources. This makes sense as the Philippines

FIGURE 1 . GLOBAL RISKS RANKED BY SEVERITY

	2 YEARS (SHORT TERM)		**10 YEARS** (LONG TERM)
1	Cost-of-living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather Events	2	Failure of climate-change adaptation
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage Incidents	6	Natural resource crises
7	Failure of climate change adaptation	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents
11	Debt crises	11	Misinformation and disinformation
12	Failure to stabilize price trajectories	12	Ineffectiveness of multilateral institutions and international cooperation
13	Prolonged economic downturn	13	Interstate conflict
14	Interstate conflict	14	Debt crises
15	Ineffectiveness of multilateral institutions and international cooperation	15	Cost-of-living crisis
16	Misinformation and disinformation	16	Breakdown of critical information infrastructure
17	Collapse of a systemically important industry or supply chain	17	Digital power concentration
18	Biodiversity loss and ecosystem collapse	18	Adverse outcomes of frontier technologies
19	Employment crises	19	Failure to stabilize price trajectories
20	Infectious diseases	20	Chronic diseases and health conditions

NOTE: BLUE – ECONOMIC; GREEN – ENVIRONMENTAL; ORANGE – GEOPOLITICAL; RED – SOCIETAL; PURPLE – TECHNOLOGICAL

SOURCE: WORLD ECONOMIC FORUM (2023)

is highly vulnerable to natural calamities, being situated along a typhoon belt and the "Ring of Fire" where earthquakes and volcanic activities typically occur.

Then again, environmental risks are not the only severe threats that affect the Philippines. During the *Philippine Economic Briefing* in January 2023, Department of Finance (DOF) Secretary Benjamin Diokno[4] said that the Philippine government is highly attuned to the risks that affect the globe, particularly a slowing world economy, geopolitical tensions, high inflation, and post-pandemic scarring, particularly its effects on education, the labor market, and industries. Given this statement, the Philippines needs to exert considerable efforts to mitigate risks both emanating from both external and internal sources.

INCLUSION OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS TO CREATE LONG-TERM BUSINESS VALUE

In light of the growing risks across the globe, there is an opportunity for businesses to transform and adapt to the rapidly changing trends not only to manage their operations, retain revenues, and reduce costs, but also to benefit all stakeholders and bring forth a more sustainable and inclusive economic growth.

FIGURE 2 . SEVERITY BY STAKEHOLDER OVER THE SHORT TERM (2 YEARS)

	GOVERNMENT		BUSINESS
1	Cost-of-living crisis	1	Cost-of-living crisis
2	Natural disasters and extreme weather events	2	Natural disasters and extreme weather
3	Failure to mitigate climate change	3	Geoeconomic confrontation
4	Geoeconomic confrontation	4	Widespread cybercrime and cyber insecurity
5	Failure of climate-change adaption	5	Large-scale environmental damage incidents
6	Debt crises	6	Erosion of social cohesion and societal polarization
7	Erosion of social cohesion and societal polarization	7	Failure to mitigate climate change
8	Failure to stabilize price trajectories	8	Natural resource crises
9	Widespread cybercrime and cyber insecurity	9	Debt crises
10	Prolonged economic downturn	10	Failure of climate-change adaptation

NOTE: BLUE – ECONOMIC; GREEN – ENVIRONMENTAL; ORANGE – GEOPOLITICAL; RED – SOCIETAL; PURPLE – TECHNOLOGICAL

SOURCE: WORLD ECONOMIC FORUM (2023)

Encouragingly, businesses, which are known to be a significant driver of job creation, have slowly been adapting to these global trends. The WEF's *Future of Jobs Report 2023*[5] found that as economic, health and geopolitical trends affect labor markets across the globe, the largest job creation and destruction effects emanate from environmental, technology and economic trends. Businesses expect investments that facilitate the green transition, the broader application of ESG standards, and supply chains becoming more localized as the strongest drivers of net job creation. Meanwhile, technological advancements are likely to drive job growth in most of the surveyed companies, but also to result in job displacement in some. On the other hand, net job destruction is expected to be driven by slower economic growth, supply shortages, and the rising cost of inputs, as well as the rising cost of living for consumers.

Figure 3 shows that the increased adoption of new and frontier technologies, expanding digital access, as well as the broader application of ESG standards were identified by businesses as the top three trends that are most likely to drive transformation in their organizations, according to the WEF.[6] Specifically, the fastest-growing roles will be driven by technology, digitalization, and sustainability, with most of these roles being related to technology. Topping the list of fastest-growing jobs are AI and Machine Learning Specialists, followed by Sustainability Specialists, Business Intelligence Analysts, and Information Security Analysts. It is worthy to note that as economies shift towards renewable energy, other significant roles include Renewable Energy Engineers, and Solar Energy Installation and System Engineers.

An advancing trend today is the incorporation of ESG factors in investment strategies, which has been seen to have the "potential to deliver long-term enterprise value, align with societal values, and contribute to sustainability and climate-related objectives," according to the Organisation for Economic Co-operation and Development (OECD).[7] In a 2004 report of the United Nations Global Compact entitled *Who Cares Wins: Connecting Financial Markets to a Changing World*,[8] a "better inclusion of ESG factors in investment decisions will ultimately contribute to more stable and predictable markets, which is in the interest of all market actors." Hence, not only will the integration of ESG factors help in improving investment markets and companies' value and reputation, but it will also aid in the sustainable development of the planet.

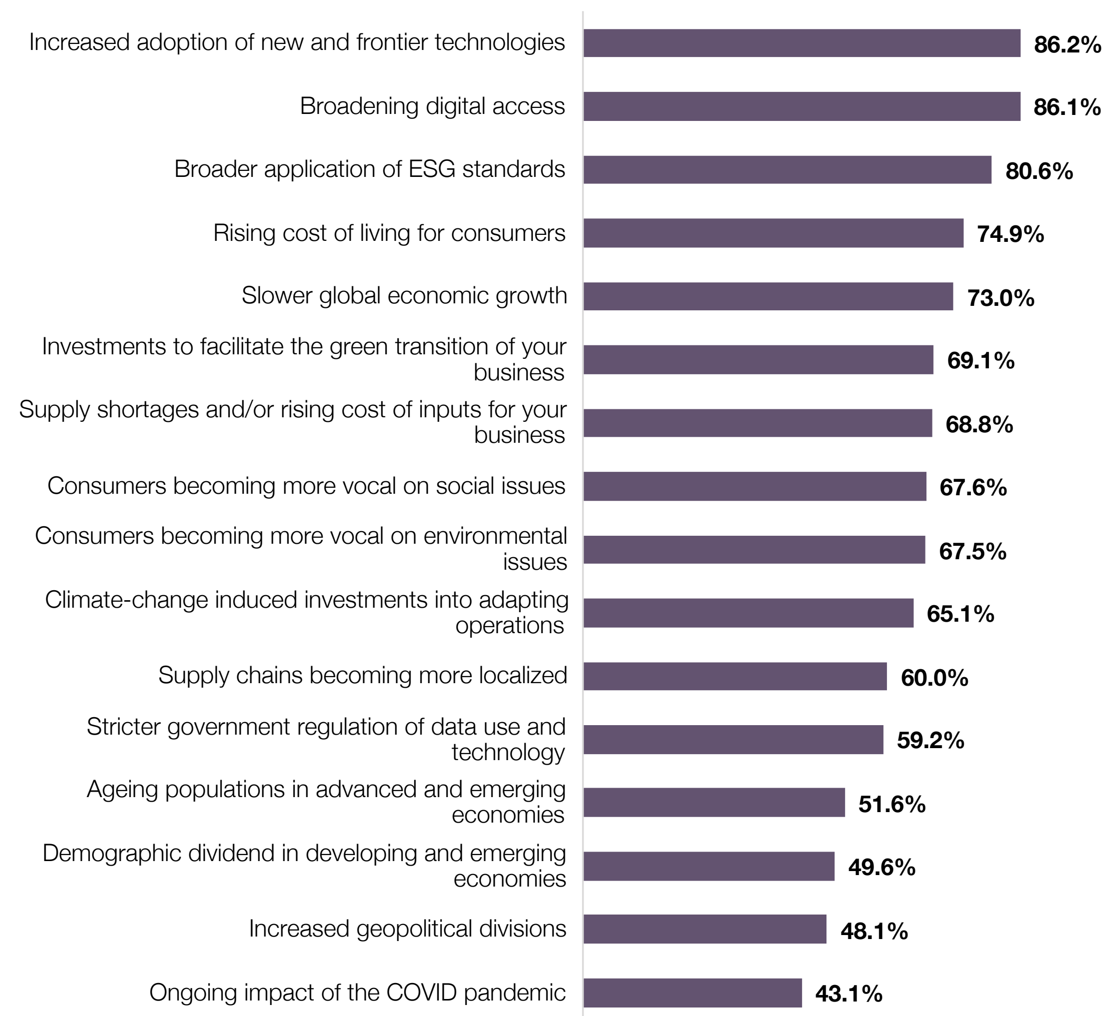
These ESG factors are wide-ranging and differ across various sectors and regions. According to the aforementioned UN report,[9] environmental issues include climate change and related risks, the need to reduce toxic releases and waste, and regulations widening the boundaries of environmental liability in terms of products and services. Social issues cover workplace health and safety, community relations, and human rights issues at the premises of companies and suppliers. Lastly, governance issues touch on the management of corruption and bribery issues, accounting and disclosure practices, and board structure and accountability. Indeed, taking into consideration a wide range of issues and challenges enables a more holistic approach to achieve inclusive growth and development.

In a study written by former Bangko Sentral ng Pilipinas (BSP) Deputy Governor Diwa Guinigundo,[10] the resilience of economies and societies can be significantly improved by pursuing a green and inclusive recovery. He wrote:

> *The introduction of ESG considerations in investment decisions is important as they correct for a market failure known as tragedy of the commons. ESG forces firms to consider the real cost to the environment and society that their activities impose. This is especially relevant for the Philippines, which is extremely exposed to natural hazards and calamities. These could potentially spill over to the real economy and the financial system. Natural disasters interrupt the production activities of firms and households, increasing their financial vulnerability, reducing the value of their assets pledged as collateral for loans, and making it more difficult for them to repay their obligations.*

The private sector has long been considered a crucial engine for economic growth. In their book *Stakeholder Capitalism: A Global Economy that Works for Progress, People and Planet*, authors Klaus Schwab and Peter Vanham[11] stated that a better way to organize the economy is through stakeholder capitalism, which is a form of capitalism where companies seek both short-term profits for shareholders and long-term value creation by taking into consideration the needs of all their stakeholders. Now that societies, economies, and the environment have become even more interconnected than ever, it is crucial

FIGURE 3 . MACROTRENDS DRIVING BUSINESS TRANSFORMATION



NOTE: THESE ARE TRENDS RANKED BY THE SHARE OF ORGANIZATIONS SURVEYED THAT IDENTIFIED THE TREND AS LIKELY OR INCREASINGLY IN THE NEXT FIVE YEARS

SOURCE: WORLD ECONOMIC FORUM (2023)

TABLE 1 . AGREEMENT/DISAGREEMENT WITH TEST STATEMENTS ON THE ROLE OF THE PRIVATE SECTOR
SEPTEMBER 17-21, 2022, IN PERCENT

Base: Total Interviews, 100%

		LOCATION				CLASS		
TEST STATEMENT: *"The private sector plays a crucial role in accelerating economic growth."*	**RP**	**NCR**	**BL**	**VIS**	**MIN**	**ABC**	**D**	**E**
AGREE	**86**	**90**	**88**	**83**	**84**	**94**	**85**	**85**
Strongly agree	46	51	41	51	47	49	45	44
Somewhat agree	41	39	47	32	37	45	40	40
CANNOT SAY IF AGREE OR DISAGREE	**11**	**9**	**10**	**17**	**11**	**4**	**13**	**10**
DISAGREE	**3**	**1**	**3**	**0**	**5**	**2**	**2**	**5**
Somewhat disagree	2	1	2	0	5	1	2	5
Strongly disagree	0.3	0	1	0	0	1	0	0
TEST STATEMENT: ***"****The government and the private sector should engage in partnership in order to sustain the country's economic recovery.****"***								
AGREE	**89**	**95**	**89**	**82**	**92**	**91**	**90**	**85**
Strongly agree	62	66	58	69	62	71	61	58
Somewhat agree	27	30	31	14	30	19	29	27
CANNOT SAY IF AGREE OR DISAGREE	**10**	**5**	**10**	**16**	**8**	**9**	**10**	**11**
DISAGREE	**1**	**0**	**1**	**2**	**0**	**0**	**0**	**4**
Somewhat disagree	1	0	1	2	0	0	0	4
Strongly disagree	0.1	0	0	0	0	0	0	0

SOURCE: PULSE ASIA RESEARCH, INC.

TABLE 2 . ISSUES THE PRIVATE SECTOR CAN ADDRESS TO BOOST THE PHILIPPINE ECONOMY
SEPTEMBER 17-21, 2022, IN PERCENT, UP TO 3 RESPONSES

Base: Total Interviews, 100%

		LOCATION				CLASS		
In your opinion, which of the following can private investors address to boost the Philippine economy? You may give up to three issues.	**RP**	**NCR**	**BL**	**VIS**	**MIN**	**ABC**	**D**	**E**
Creating jobs	69	77	71	60	66	62	71	64
Help uplift the lives of Filipinos out of poverty	65	70	60	64	73	66	68	52
Expanding livelihood opportunities	49	50	47	57	48	51	49	50
Improving healthcare systems	37	29	44	37	27	33	38	34
Improving the quality of and access to digital services	27	31	29	30	18	37	25	28
Managing natural resources and taking care of the environment	19	18	17	24	21	15	20	20
Developing public infrastructure	16	14	16	15	21	16	15	25
Improving the quality of education	12	10	13	8	12	18	10	13

SOURCE: PULSE ASIA RESEARCH, INC.

to try to holistically address all issues related to these, such as the health of the planet and the well-being of people and communities.

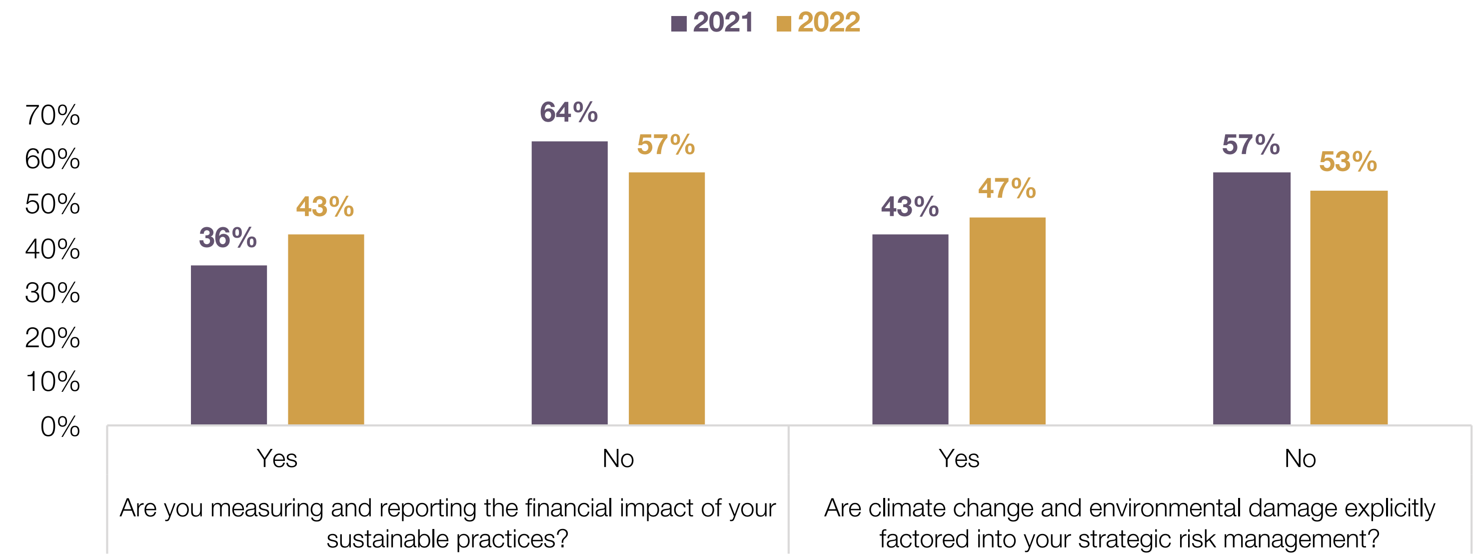
Some Philippine-based companies have also taken great strides to incorporate ESG into their operations. Encouragingly, a survey commissioned by the Stratbase ADR Institute to Pulse Asia Research, Inc. in September 2022 revealed that 86% of Filipino adults agree that the private sector plays a crucial role in accelerating the country's economic growth (Table 1). In addition, 89% of Filipinos say that the government and the private sector should engage in partnership in order to sustain the country's economic recovery.

Notably, the survey found that Filipino adults perceive private investors as having the capability to help address various multi-sectoral issues and challenges that can, ultimately, aid in economic growth and development. According to the survey, most Filipinos believe that private investors can create jobs (69%), help uplift the lives of Filipinos out of poverty (65%), and expand livelihood opportunities (49%) (Table 2).

Specifically, the country's top conglomerates have expressed commitment to strengthen their efforts in integrating ESG dimensions into their operations. For one, Ayala Corporation chairman Jaime Augusto Zobel de Ayala[12] emphasized the need for firms to transform their sustainability and ESG commitments "from big words to bigger actions." He noted that ESG, which is "all about keeping our house in order," allows businesses to hold themselves accountable for the impact that they generate along the environmental, social, and governance aspects. He added that in 2022, the Ayala Group categorized its ESG topics into five themes: (1) climate change and biodiversity; (2) resource efficiency and waste management; (3) workplace experience and future of work; (4) customer experience and protection; and (5) equitable business practices.

Furthermore, Aboitiz Equity Ventures (AEV) President and CEO Sabin

FIGURE 4 . SUSTAINABILITY PRACTICES IN THE PHILIPPINES



SOURCE: PWC PHILIPPINES AND THE MANAGEMENT ASSOCIATION OF THE PHILIPPINES (2022)

Aboitiz[13] stressed that the conglomerate would continue its efforts in promoting a balance between economic, societal, and environmental stewardship, and upholding its responsibility to its stakeholders by constantly improving its ESG performance. AEV Chief Financial Officer Manuel Lozano[14] also underscored that to be able to implement a successful ESG integration, there must be a strong push from the organization's leadership and key decision-makers, a solid governance structure, as well as a clear vision.

However, despite these positive efforts, much still needs to be done to fully embrace ESG and make it more mainstream. The *2022 CEO Survey*[15] of PwC Philippines and the Management Association of the Philippines (MAP) noted that while most firms focused on technology and digital upskilling (64%), only 30% of businesses incorporated ESG goals in their business plan post-pandemic. In addition, 29% expanded the stakeholder engagement goals by including employees, communities, and suppliers. According to the report, the implementation of ESG initiatives may incur some costs, which prevent companies from fully adopting these practices. Moreover, as shown in Figure 4, despite the advantages of ESG practices in the long run, most of the CEOs who participated in the PwC-MAP survey still do not measure and report the financial impact of their sustainable practices. Climate change and environmental damage have also yet to be explicitly factored into most of CEOs' strategic risk management activities.

GOVERNMENT ESG POLICIES AND POLICY FRAMEWORKS

In the Philippines, the adoption of ESG practices among stakeholders is gaining momentum. However, the level of awareness and understanding of ESG principles and their impact on companies, investors, and the general public and the importance of ESG considerations in driving sustainable business practices, responsible investing, and long-term value creation is not yet pervasive. Mainstreaming ESG in the country could be at a relatively early stage compared to some developed countries, particularly those with a long history of sustainable corporate activity, investing, and governance.

Nonetheless, the Philippines is making progress in promoting and integrating ESG practices across sectors. Factors to this are the national government's policies and frameworks that are anchored on promoting sustainable capitalism to ensure profit as well as the well-being of stakeholders and the future condition of the environment. Through effective policy formulation and enforcement, the national government can create an enabling environment that encourages businesses, investors, and other stakeholders to prioritize ESG considerations in their operations and decision-making processes, leading to a more sustainable and resilient economy.

The Philippine government's ESG policies and frameworks focus on corporations' reporting and financial institutions' investing and lending activities, which they can manage and, to an extent, control. As the integration of ESG practices in the country grows, there have been policies and frameworks going beyond these two aspects.

With regard to corporations' sustainable reporting, the Securities and Exchange Commission (SEC) announced its commitment to assisting publicly listed companies in evaluating and handling the non-financial aspects of their operations, utilizing ESG criteria. This initiative aims to enhance their contributions to local and global sustainability objectives. Key policies on sustainability reporting in the Philippines can be found in Table 3.

According to SEC Commissioner Kevin Lester Lee, the compliance rate in the submission of sustainability reports by publicly listed companies since the effectivity of SEC Memorandum Circular No. 4 in 2019 is good. There were 90.4% and 91.07% compliance on the 2019 (reported in 2020) and 2020 (reported in 2021) sustainability reports, respectively.[19] However, according to Sustainable Fitch, a specialist ESG unit of the Fitch Solutions group, the SEC may face challenges in effectively implementing and capturing the primary essence of the policy as companies tend to highlight only positive aspects in their reports. On top of this, the Philippines is unable to set clear details on ESG and decarbonization strategies which hinder progress in the integration of the ESG frameworks.[20]

Meanwhile, on sustainable finance, the Bangko Sentral ng Pilipinas (BSP) acknowledges the significant role played by financial institutions in promoting a sustainable and resilient economy. The BSP has been actively promoting awareness regarding the impact of integrating ESG principles into the financial sector and emphasizing the importance of effectively managing associated risks and opportunities. Additionally, the BSP aims to collaborate closely with other financial regulators and authorities to expedite progress toward sustainable development. Furthermore, the BSP intends to develop reforms to safeguard the

TABLE 3 . KEY POLICIES ON SUSTAINABILITY REPORTING IN THE PHILIPPINES

POLICY	DESCRIPTION
Sustainability Reporting Guidelines for Publicly Listed Companies	Under SEC Memorandum Circular No. 4 (series of 2019), publicly listed companies are mandated to provide sustainability reports from 2020 onwards, following a "comply or explain" approach. This requirement serves the purpose of assisting companies in recognizing, assessing, and handling significant economic, environmental, and social risks and obstacles. Additionally, it aids in monitoring and gauging their progress in aligning with the Sustainable Development Goals (SDGs) and other national policies. Notably, in 2023, publicly listed companies are mandated to submit their sustainability reports. The SEC is also planning to introduce voluntary, and eventually mandatory, reporting for non-listed companies[16]
Guidelines on the Issuance of Green, Social, and Sustainability Bonds	Under SEC Memorandum Circular No. 8 (series of 2019), the SEC provided guidelines on the issuance of green, social, and sustainability bonds in the Philippines under the ASEAN Green Bond Standards, the ASEAN Social Bond Standards, and the ASEAN Sustainability Bond Standards in 2018 and 2019[17]
Revised Code of Corporate Governance for Insurance Commission Regulated Companies (ICRC)	In June 2020, the Insurance Commission released Circular Letter (CL) No. 2020-71, which mandated the integration of stakeholder governance and sustainability reporting within the governance framework of Insurance Commission Recognized Companies (ICRCs). According to the circular, organizations are required to disclose significant non-financial and sustainability matters that are deemed material and reportable[18]

TABLE 4 . KEY POLICIES ON SUSTAINABLE FINANCE IN THE PHILIPPINES

POLICY	DESCRIPTION
Sustainable Finance Framework	In 2020, the BSP released Circular No. 1085, which introduced the guidelines for the Sustainable Finance Framework. These guidelines made it mandatory for banks and financial institutions in the Philippines to integrate ESG principles into their corporate strategy and risk management framework. This initiative is part of the BSP's comprehensive endeavors to foster a resilient, inclusive, and low-carbon economy.[21] The framework will fund eligible social projects and eligible green projects that align with the aligned with four core components of Green Bond Principles 2021 ("GBP"), Social Bond Principles 2021 ("SBP"), Green Loan Principles 2021 ("GLP"), and Social Loan Principles 2021 ("SLP"). [22]
Sustainable Central Banking Program	As an integral component of the BSP Strategy Map for 2020-2023, the BSP has implemented an internal program aimed at promoting environmentally responsible and sustainable policies and work practices within the organization. This initiative will ultimately lead to the creation of the Sustainable Central Banking Roadmap. The roadmap will outline the key milestones, plans, and strategies for integrating sustainability principles into the crucial operations and functions of the BSP[23]
Green Bond Fund	In July 2021, the BSP allocated an investment of USD 350 million to the Green Bond Fund, which was initiated by the Bank for International Settlements (BIS). This investment represents the BSP's commitment to sustainable investing as a part of its reserve management strategy. This year, the BSP will invest USD 500 million in green bonds as part of the "greening" of the country's foreign currency reserves[24]
Environmental and Social (E&S) Risk Management Framework	In October 2021, the BSP released BSP Circular No. 1128 which serves as a framework for managing environmental and social risks in relation to defining credit risk appetite and operational risk management of the local financial institutions[25]
Integration of Sustainability Principles in Investment Activities of Banks	In August 2022, the BSP released Memorandum Circular No. 1149 or the Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks. Under the said circular, financial institutions are further required to consider their sustainability strategic objectives and risk appetite in debt and equity securities[26]
Green Force	In collaboration with the DOF and other government agencies, the BSP endeavors to develop a unified and comprehensive strategy aimed at integrating green and sustainable finance into the mainstream financial system of the country

Philippine financial system from the potential impact of climate change and other environmental and social risks. Table 4 enumerates the key policies on sustainable finance in the Philippines.

At the start of his term under President Ferdinand "Bongbong" Marcos Jr.'s administration, DOF Sec. Diokno urged leaders from the public, private, and development sectors in the country to invest more in adaptation and mitigation measures that would reduce climate risks and disaster impact on the Filipino people. The country's high exposure to climate and disaster risks has pushed the government to be proactive in prioritizing disaster risks and climate change impact. Notably, DOF Sec. Diokno recognized that the private sector plays an important role in realizing sustainability in the long-term including a just transition to a low-carbon economy through energy transition, technology development and deployment, and building of climate-resilient communities, with due regard to natural resources and ecosystem integrity.[27]

Recently, DOF Sec. Diokno also reconvened the Inter-Agency Task Force on Sustainable Finance (ITSF) to discuss the status of the implementation of the Sustainable Finance Roadmap and its Guiding Principles. Sec. Diokno noted that progress has been made in the development and implementation of the framework, but there is still much to be done in ensuring the continuity and effectiveness of the framework's programs.[28]

Notably, under the Philippine Development Plan (PDP) 2023 to 2028, the Marcos Jr. administration aims to position the Philippines as a prime destination for foreign investments incorporating ESG, specifically in the areas of reforestation combined with food security and sustainable livelihood for buffer communities. An ESG Investments Task Force will be established, which will spearhead the work in building transparent and credible Standards and Certification schemes by stimulating dynamic institutional entrepreneurship in this arena. The task force will be composed of government agencies including the National Economic and Development Authority, Department of Environment and Natural Resources, Department of Trade and Industry–Board of Investments, DOF, Department of Social Welfare and Development, Department of the Interior and Local Government, Department of Energy, Climate Change Commission, and the Philippines Space Agency. Other members come from the private sector, academe, and other social partners of the national government.[29]

Despite the positive developments in the integration and mainstreaming of ESG principles and practices in the country, the overall adoption can still be considered at its infancy stage due to critical factors including awareness, data availability and accessibility, and policy consistency and harmonization.

Awareness among companies, investors, and the general public of ESG and the potential benefits and implications of ESG practices is still relatively low compared to more developed markets. Many companies cannot distinguish the difference between corporate social responsibility (CSR) and ESG. This alone hinders their capacity to strategically transition toward the latter. This is also a factor why the country has a shorter history of incorporating sustainability and ESG considerations. Hence, the low data availability and access to reliable data, compared to those in developed countries that have long been integrating sustainable practices and investing in their corporate processes. Having adequate and reliable ESG data is critical to making informed decisions on business operations as well as for investors.

Meanwhile, while some companies voluntarily and proactively disclose their non-financial situation and impact – which is set to become mandatory for publicly listed companies – ESG reporting across various sectors lacks consistency both in terms of the content and format of the disclosed information. The national government acknowledges different accredited and internationally accepted methodologies, metrics, and reporting frameworks that make it more challenging for investors and the general public to compare and evaluate ESG performances accurately.

MOVING FORWARD WITH ESG

In the Philippines, there is a growing imperative to transition to a "green" and sustainable economy that addresses interconnected issues like economic growth, environmental stewardship, climate resilience, and public health, and sustainable lifestyle development. To achieve this, it is crucial to implement effective policies, establish efficient systems, and adopt innovative technologies that allow stakeholders to responsibly utilize natural resources, reduce pollution, monitor environmental conditions in real-time, and integrate energy-efficient infrastructure.

The private sector holds a significant role in the country's pursuit of an investment-led growth as well as in driving sustainable development. Through their adherence to ESG principles, private firms actively contribute to building a sustainable future that can be enjoyed by future generations. They can also promote green and sustainable investments, adopt responsible and efficient business practices, report transparently, and take measures to control pollution. These initiatives align with the United Nations' Sustainable Development Goal of promoting responsible consumption and production. On top of these initiatives, ESG integration can help firms reduce costs over the long run, expand business opportunities, and improve their reputation and brands. With increased trust and confidence from financial institutions, firms that adhere to ESG standards are less likely to experience regulatory hurdles and are more likely to be able to obtain their needed capital and resources.

Therefore, private sector-led endeavors grounded in ESG principles offer the promise of a better and more sustainable future, generating positive long-term returns for the economy, society, and the environment.

However, it is important to recognize that the private sector alone cannot address the broad-ranging changes that sustainability requires. The government, with input from civil society, must establish responsive policies and frameworks that create a favorable business environment while ensuring compliance with ESG principles. By working together, the private sector, government, and civil society can drive the necessary transformations toward a sustainable and resilient future.

Addressing the challenges in the integration of ESG in the country will take some time and require a concerted effort, particularly in increasing awareness and education among stakeholders, enhancing non-financial data availability and accessibility, and fostering policy consistency and harmonization. Overall, companies in the Philippines are going in the right direction given their achievements thus far in integrating ESG into their respective corporate practices and processes.

ENDNOTES

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[2] Ibd.

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ABOUT

Venice Isabelle Rañosa
is Research Manager at the policy think tank Stratbase ADR Institute. In her larger role at the Stratbase Group, she oversees research engagements on the economy, public policy, and sustainable development. She received her master's degree in development policy and a bachelor's degree in international studies, with honors, from De La Salle University-Manila and was awarded a Diploma in Spanish by the Instituto Cervantes in Madrid, Spain.

Felix Jose Vitangcol
a licensed mining engineer, is a fellow for Environment at the Stratbase ADR Institute. He also serves as secretary-general of the Philippine Business for Environmental Stewardship (PBEST). He received his bachelor's degree in mining engineering from the University of the Philippines-Diliman.

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The Financial Tower
6794 Ayala Avenue, Makati City
Philippines 1226

V 8892.1751
F 8892.1754

www.stratbase.ph