

FINANCING THE FUTURE OF ASIA

Innovations in Sustainable Finance

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EXECUTIVE SUMMARY

Around the globe, a wave of financial innovation seeking social and environmental benefits while producing attractive returns is shaping the exciting field of sustainable finance.

From funds investing in forest conservation, to parametric insurance products improving the disaster resilience of countries; from micro-credit to small retailers through credit assessments based on trading patterns, to new affordable housing funds investing in projects de-risked through long-term rental contracts, the world of sustainable finance is becoming increasingly diverse.

Sustainable finance is also growing strongly. One area that has posted dramatic expansion in recent years is investing in publicly listed corporations based on environmental, social, and governance (ESG) factors. In the United States, the world's leading ESG market, total assets under management under ESG strategies have grown almost four-fold in eight years, and now represent \$1 out of every \$4 currently invested with professional asset managers.

WHY SUSTAINABLE FINANCE?

One simple reason why investors are moving into sustainable finance is that it has been shown to produce strong returns and low volatility, and offers portfolio diversification benefits. Financial services providers are also under increasing pressure from clients, employees, and governments to pay greater heed to sustainability issues in their activities.

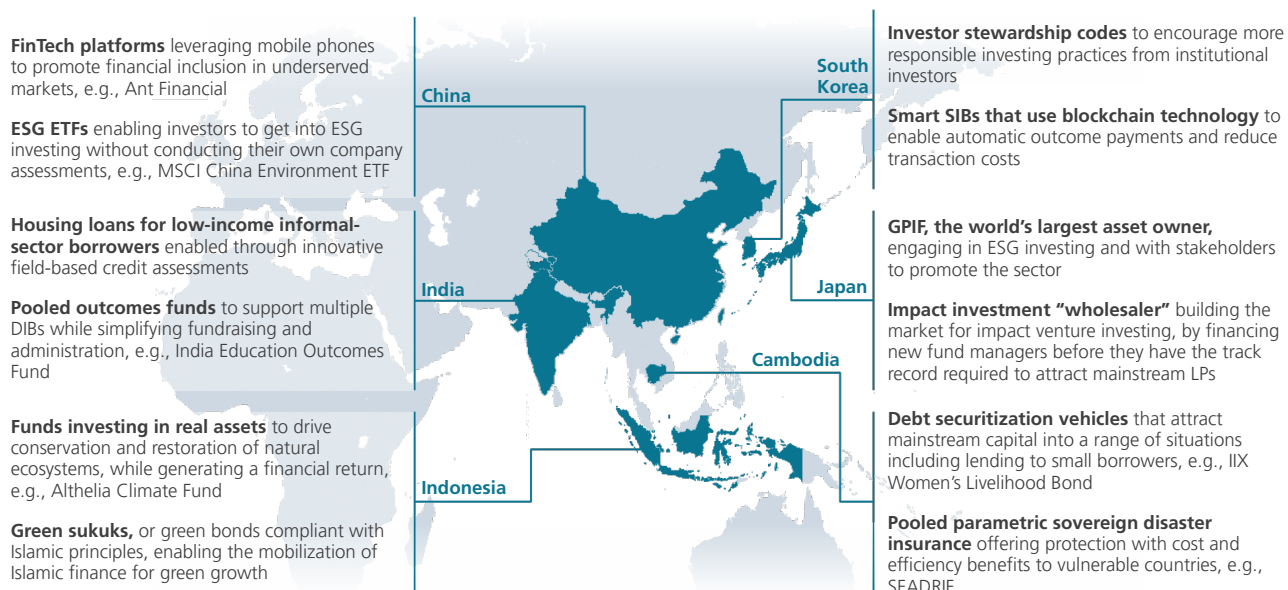
Around the world, decades of resource-intensive economic growth have also created serious sustainability challenges, which is especially true in Asia. If countries in Asia persist with their historical approach to growth, many will face the risk of unraveling past economic gains, as well as growing threats in areas such as food and water insecurity, and inequality and poverty. Ultimately, investors and financial services institutions in Asia will not be able to escape the serious costs and consequences associated with these problems.

GROWING INTEREST AND MOMENTUM IN ASIA

There is huge potential for sustainable finance to grow in key Asian economies and catch up with more developed markets such as the United States and Europe. We believe that the current wave of innovation in sustainable finance in Asia demonstrates strengthening interest and momentum across the region.

In Japan, the Government Pension Investment Fund (GPIF), the world’s largest asset owner, recently announced its intention to incorporate ESG factors into all its investment decisions. In India, affordable housing finance companies have built a combined loan portfolio of more than \$4 billion, financing over 230,000 homes for low-income households through innovative credit assessments. In China, FinTech giants, such as Ant Financial, are extending the reach of financial services to millions of previously underserved rural households. In Indonesia, funds such as the Althelia Climate Fund are investing in land and rehabilitation projects, curtailing damage from deforestation.

The figure below provides a selection of recent innovations in different areas of sustainable finance across Asia.

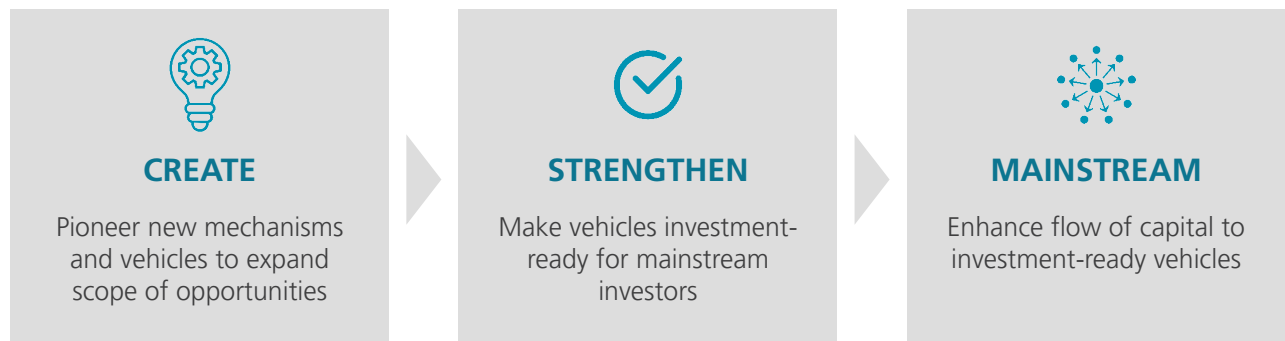


Note: ETF – exchange-traded funds; DIB – Development Impact Bond; SIB – Social Impact Bond; IIX Women’s Livelihood Bond has been launched in Cambodia, Vietnam, and the Philippines; SEADRIF (Southeast Asia Disaster Risk Insurance Facility) currently covers Cambodia, Lao PDR, and Myanmar; Map is based on UN maps, black dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan, the final status of Jammu and Kashmir has not yet been agreed upon by the parties.

In the report, we take a closer look at these innovations and many more, highlighting how they are working to mobilize private-sector capital at scale to address important social and environmental challenges. We also explore recent developments and potential future opportunities in Asia’s four largest economies: China, India, Japan, and Indonesia.

UNLEASHING THE NEXT WAVE OF INNOVATION

While this range of innovation is inspiring, we need to see even greater levels of innovation across Asia to truly exploit the full potential of sustainable finance. Importantly, there are needs not only for the creation of new mechanisms and vehicles, but also in making these vehicles investment-ready for mainstream investors, and then in drawing in the quantities of capital needed to transform the entire market. These three areas are reflected in the figure below.



In *Create*, actors directly engage in or foster the development and structuring of new vehicles to expand sustainable finance to additional areas. In *Strengthen*, they seek to bring untested vehicles to a stage where they are investment-ready for mainstream investors, for example, by refining a vehicle's model, building its track record, and helping shape a supportive ecosystem. In *Mainstream*, participating actors aim to mobilize capital from mainstream investors into investment-ready vehicles, including by spreading awareness about the vehicles' value proposition or engaging in capacity building efforts to support investors.

In the report, we lay out some initial recommendations for how a range of different actors could engage across these areas of intervention. Our hope is many more investors and financial services providers will seize the opportunity to shape this emerging sector and move toward a future in which *all* of finance is turned toward building a better world.

DOWNLOAD THE FULL REPORT, GO TO www.fsg.org/publications/financing-future-of-Asia

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