THE GROWING OPPORTUNITIES AND BUDDING CHALLENGES OF ESG

Introduction

Environmental, Social, and Governance (ESG) criteria have become integral to the global business landscape, with companies and investors increasingly recognizing the importance of responsible and sustainable practices. As a prominent financial center within the ASEAN region and a country with a Green plan, Singapore is no exception to this trend. In recent years, the city-state has made significant strides in adopting and promoting ESG principles.

What is ESG?

ESG is essentially a framework or set of criteria that assesses a company's long-term sustainability performance, risk management, and ethical behavior. The environmental aspects focus on how the company impacts the environment. This includes factors such as carbon footprint, energy efficiency, waste management and the types of solutions it adopts to mitigate climate change. The social criteria of ESG are all about the company's social impact; how it treats its employees, diversity, inclusion, community engagement and human rights. To score higher in this category, companies must adopt fair labour practices and implement support for the well-being of employees. In terms of governance, it relates to the structure of the company, the board composition, and ethical standards. Companies with a strong governance practice are usually transparent and have strong anti-corruption measures in place.

The Current ESG Landscape in Singapore

Singapore has been increasingly emphasizing ESG considerations within its business landscape. Although there is no single overarching law solely dedicated to ESG, Singapore has established a framework of regulations, guidelines, and incentives that collectively promote and support ESG principles across various aspects of business and finance. The emphasis on transparency, reporting, and accountability aims to encourage companies to integrate sustainability and responsible practices into their operations.

(1) Singapore Exchange (SGX)

SGX, as the main stock exchange, has Listing Rules that mandate companies to disclose their sustainability practices. This "comply or explain" approach requires listed companies to publish annual sustainability reports or explain why they have not done so. Under SGX Mainboard Rules, a sustainability report must be issued no later than four months after the financial year end, or no later than five months, if the company has conducted external assurance. Such reporting is mandatory for listed companies in the financial, energy, agriculture, food, and forest sectors from the 2023 financial year onwards, extending to listed companies in the transportation, materials and building sectors from the 2024 financial year.

Listed companies must also set and disclose their board diversity policy in annual reports, with gender specified as an aspect of diversity that should be encapsulated. The policy should cover skills, experience and any other relevant aspects of diversity that can serve the needs and plans of the organization, and indicate targets for achieving such diversity, accompanying plans and timelines.

(2) Monetary Authority of Singapore (MAS)

MAS has been active in advocating for ESG integration within the financial sector. It encourages financial institutions to consider ESG factors in investment decisions and risk management processes. MAS has also introduced guidelines and initiatives to promote sustainable finance.

MAS published a circular in July 2022 on the Disclosure and Reporting Guidelines for Retail ESG Funds, which requires these funds to provide clear disclosures on their ESG investment objectives and approach, along with relevant criteria, metrics and regular updates on how these objectives are being met.

(3) Green Finance

Singapore aims to be a leading hub for green finance in Asia. The government has been actively promoting green finance through incentives, tax breaks, and initiatives that promote green bonds, sustainable finance, and environmentally friendly investments. The nation's commitment to ESG-focused financial products has been strengthened via the Green Finance Action Plan and the Sustainable Bond Grant Programme, which offer incentives for green investments and the issue of sustainable bonds.

(4) Companies Act 1967

The Companies Act in Singapore includes provisions related to corporate governance, which align with the 'G' in ESG. This legislation emphasizes the responsibilities of directors, financial reporting, and disclosure requirements.

(5) Environmental Protection and Management Act 1999

While not exclusively focused on ESG, this Act sets out regulations related to environmental protection, pollution control, and management of hazardous substances. It contributes to the ‘E’ in ESG by providing a framework for environmental protection.

(6) Carbon Pricing Act 2018 (CPA)

Singapore is the first country in Southeast Asia to introduce a carbon price. The carbon tax, at S$5 per tonne of greenhouse gas emissions (tCO2e), was introduced in 2019 through the CPA for the first five years from 2019 to 2023 to provide a transitional period for emitters to adjust.

To support our net zero target, the carbon tax will be raised to S$25 per tCO2e in 2024 and 2025, and S$45 per tCO2e in 2026 and 2027, with a view to reaching S$50-80 per tCO2e by 2030. This will strengthen the price signal and impetus for businesses and individuals to reduce their carbon footprint in line with national climate goals.

The carbon tax will incentivise emissions reductions across all sectors and support the transition to a low-carbon economy. There are no exemptions for covered facilities, to maintain a transparent, fair, and consistent price signal across the economy.

(7) Government Grants and Incentives

The Singapore government offers grants and incentives to encourage businesses to adopt sustainable practices, innovate in sustainability, and reduce their environmental impact. It covers areas such as core capabilities, innovation and productivity, and market access. This grant can be used to fund projects that involve sustainable practices or technologies.

Examples of such grants include the following:

(a) Productivity Solutions Grant (PSG): PSG supports businesses in adopting IT solutions and equipment to enhance productivity. It includes support for solutions that promote energy efficiency and resource optimization, contributing to sustainability.

(b) Sustainable Energy and Environmental Development (SEED) Fund: Managed by Enterprise Singapore, this fund supports projects that promote energy efficiency, conservation, and adoption of clean energy technologies.

(c) Capability Development Grant (CDG): This grant assists companies in developing capabilities across various areas, including environmental sustainability and resource efficiency.

(d) Green Technology Programme: This program by the National Environment Agency (NEA) offers funding support for projects that adopt green technologies to improve energy efficiency, reduce water consumption, and manage waste effectively.

(e) Energy Efficiency Fund (E2F): The E2F by the Energy Market Authority (EMA) supports energy efficiency projects in industries, buildings, and infrastructure.

(f) Tax Incentives: Singapore offers various tax incentives and rebates for companies that invest in energy-efficient equipment, use renewable energy sources, or engage in activities that contribute to environmental sustainability.

These grants and incentives are part of Singapore's broader strategy to encourage businesses to embrace sustainability, adopt green technologies, and contribute to the country's environmental goals while enhancing their competitiveness and long-term viability. The specific eligibility criteria and application processes for these grants may vary, and businesses need to meet certain requirements to qualify for these incentives.

Challenges in Implementing ESG in Singapore

The concept of ESG is still relatively new to some companies and investors in Singapore. Raising awareness and education about the importance and potential benefits of ESG is key to wider adoption. Although guidelines and regulations have been put in place for ESG reporting, achieving standardization across industries and sectors remains a challenge. Different interpretations of ESG criteria and measures can hinder comparability. Singapore’s focus on economic growth and competitiveness can sometimes lead to short-term views on business decisions. Companies may prioritize profits over long-term ESG considerations, which can be a barrier to sustainable practices.

Another challenge is accurate and up to date ESG data. As good data is essential for investors to make informed decisions, companies must improve data collection, verification, and reporting processes to meet the growing demand for ESG information. Achieving global consistency in ESG standards and principles is critical, especially for companies with international operations. Singapore companies must meet different ESG requirements across different markets and jurisdictions.

Future Outlook of ESG in Singapore

Despite these challenges, the outlook for ESG in Singapore is promising. The government, regulatory bodies, and the private sector are actively working to overcome these obstacles and promote a culture of sustainability. Several factors contribute to the optimistic outlook:

The commitment of regulatory bodies like MAS and SGX to ESG guidelines and requirements is likely to intensify. This support provides a strong foundation for ESG integration into the Singaporean corporate landscape. Collaboration within industries and sectors is essential for the development and implementation of ESG initiatives. Singaporean companies are increasingly working together to share best practices and develop industry specific ESG frameworks.

Singapore is also known for its innovation and technological advancements. This can be harnessed to develop ESG solutions, improve data collection, and create sustainable technologies that address environmental and social challenges. As global investors prioritise ESG criteria, Singapore is likely to see increased interest in ESG-focused investments. This, in turn, will encourage more companies to adopt ESG practices to attract investment.

Engaging with stakeholders, including customers, employees, and the local community, is becoming a priority for businesses. Companies that actively involve their stakeholders in ESG decisions are better positioned for long-term success.

Conclusion

Singapore has made significant strides in adopting and promoting ESG principles, reflecting a growing commitment to sustainability in both the public and private sectors. Key initiatives, regulatory support, and a thriving sustainable finance sector are shaping the country's ESG landscape. However, challenges such as awareness, standardization, and the need for long-term thinking persist.

The future of ESG in Singapore is bright, with a continued focus on regulatory support, industry collaboration, innovation, investment, and stakeholder engagement. Singapore is poised to emerge as a regional leader in ESG practices, demonstrating that economic growth and sustainability can go hand in hand. As the city-state continues to integrate ESG principles into its business culture, it will contribute to a more sustainable and responsible global economy.

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