

Top Five ESG Trends in the Philippines to Watch Out for in 2023

2023 looks to be of greater interest for companies here in the Philippines when it comes to sustainability, built up on trends that have begun in 2022 and are influenced by policies and regulatory guidelines on how to transition from the old practices in business to ESG-based or sustainable practices in the Philippines.

In this article, we at NRI Manila Branch wish to share three emerging trends in sustainability in the Philippines that should be on the lookout in 2023.

1. Integration of Sustainability Standards through the ISSB

The formation of the International Sustainability Standards Board (ISSB) along the sidelines of the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC, better known as COP 26) in 2021 became a turning point of the integration of what is currently described as the “alphabet soup” of sustainability standards and frameworks dating back to the formation of the Global Reporting Initiative in 1999.

Since its formation by the International Financial Reporting Standards Foundation (IFRS), the ISSB fully integrated the Value Reporting Foundation (VRF), composed of the former Integrated Thinking Framework (<IR>) and the Sustainability Accounting Standards Board (SASB). The <IR> Framework is best known for the concepts of integrated thinking and reporting, while SASB is focused on sector-specific materiality disclosures. In addition to the VRF, the ISSB integrated the Climate Disclosure Standards Board, an international group of business and environmental advocates committed to advancing and aligning the global mainstream corporate reporting by integrating natural and social capital with financial capital. Apart from the integration, the ISSB is working with other sustainability organizations such as the Global Reporting Initiative (GRI) and the Task Force for Climate-related Financial Disclosures (TCFD). (Wheeler, 2022)

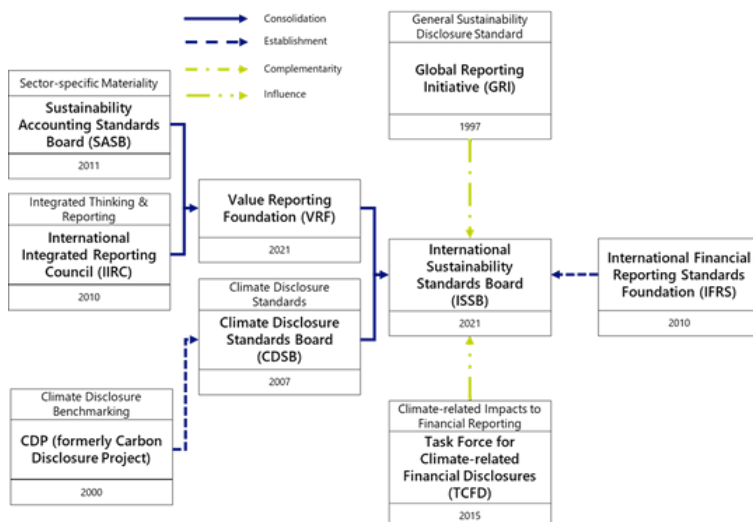


Figure 1. State of convergence of standards with the International Sustainability Standards Board (ISSB, adapted from Wheeler, 2022).

Based on current commitments, the ISSB will release two sets of disclosure standards for companies to consider reporting around Q1 2023:

- IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2: Climate-related Disclosures

Both standards utilize the TCFD framework of (a) Governance, (b) Strategy, (c) Risk Management, and (d) Metrics and Targets, apart from materiality, stakeholder engagement, and integrated thinking and reporting principles. In addition, the ISSB endorses the idea of double materiality.

Last December 2022, the ISSB also decided on a new definition of sustainability (ISSB, 2022), to which it will be as:

Sustainability is the ability for a company to sustainably maintain resources and relationships with and manage its dependencies and impacts within its whole business ecosystem over the short, medium and long term. Sustainability is a condition for a company to access over time the resources and relationships needed (such as financial, human, and natural), ensuring their proper preservation, development and regeneration, to achieve its goals.

Globally, acceptance of the ISSB standards have been welcomed by various institutions. The European Financial Reporting Advisory Group (EFRAG) are aligning their strategies under the Corporate Sustainability Reporting Directive (CSRD) strategy to the ISSB Standards. Similarly, GRI is harmonizing its standards with the ISSB, although their standards would remain to be separate from ISSB's.

Although companies in the Philippines are not yet required to disclose using the ISSB standards per mandate of the Philippine Securities and Exchange Commission (SEC), the Professional Regulatory Board of Accountancy under the Professional Regulation Commission of the Philippines (PRC) issued a board resolution in September 2022 recommending to the whole of the PRC the adoption of the ISSB standards in the preparation of the general-purpose financial statements for all Philippine companies (PRC Board of Accountancy, 2022)

2.Scope 3 Emissions Reporting and its Challenges

Part of the efforts to fully integrate more climate-related impacts to ESG reporting in businesses is the mandatory disclosure of Scope 3 under the ISSB standards adopted last October 2022. Since then, companies have been given a year, or until 2024 to comply with the mandate (ISSB, 2022).

Having previously been considered as voluntary to disclose, Scope 3 carbon emissions refer to indirect emissions that are not coming from the use of electricity, heat, steam, or cooling that forms part of Scope 2 emissions. This means that the coverage of Scope 3 emissions includes the supply and value chains.

The importance of making scope 3 mandatory is to ensure a quicker carbon emissions reduction across all operations of one's company, as well as to influence their suppliers and partners to be more responsible in their carbon footprint.

In the Philippines, only a handful of companies have declared their Scope 3 emissions, mostly from companies that have more experience in greenhouse gas accounting and inventory. However, having Scope 3 included would provide more clarity in data on how much carbon emissions the private sector would generate in the country.

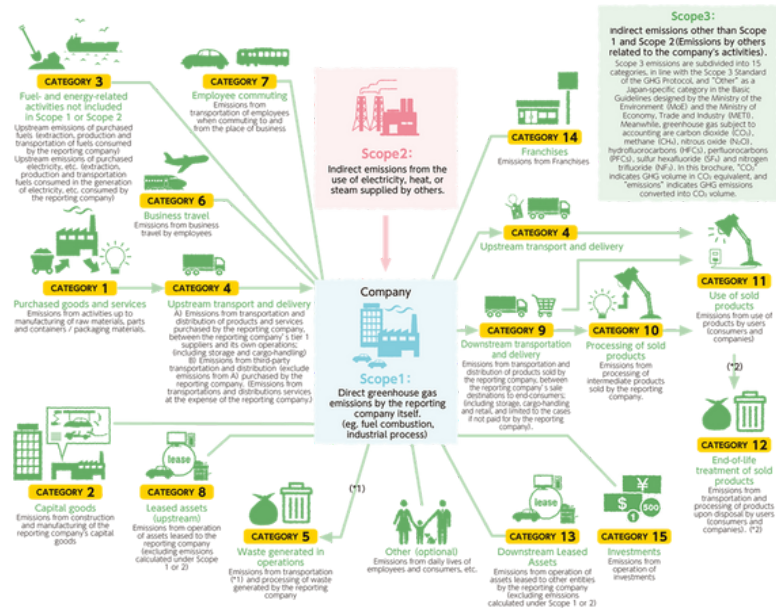


Figure 2. Carbon emission scope mapping summary. (Source: Ministry of Environment, Government of Japan, undated)

3.Renewable Energy on the Rise

The Philippine government is moving forward in its renewable energy (RE) commitment of 35 percent in 2030 and 50 percent in 2040, based on the Philippine Energy Plan 2020-2040, in line with the Renewable Energy Act 2008 (Republic Act 9513).

On the supply side, the Philippine Government concluded the first round of the Green Energy Auction Program (GEAP) in June 2022 with 1,966.93 megawatts of renewable energy (RE) capacities committed to deliver energy from 2023 to 2025 (Velasco, 2022). The GEAP is an initiative to enable the selection of eligible renewable energy plants through a competitive process or auction. The auction was also successful in achieving competitive prices lower than or equal to the Green Energy Auction Reserve prices set by the Energy Regulatory Commission.

The Department of Energy (DOE) announced in September 2022 that companies that are participants of the Renewable Portfolio Standards (RPS) process to increase their annual incremental RE percentage share from 1.0 percent to 2.52 percent from 2023 to 2040, in a bid to accelerate their energy transition needs from traditional to renewable sources (DOE, 2022). The RPS refers to a market-based government initiative that mandates electricity suppliers to source a certain amount of their energy supply from eligible RE resources.

DOE, along with the Energy Regulatory Commission (ERC) and allied agencies, announced in November 2022 the allowing of full (100 percent) foreign ownership of renewable energy projects (particularly in solar and wind projects) to speed up the process of increasing RE presence in the energy grid, except for hydroelectric projects. The Government expects more foreign investments in renewable energy to increase the generation capacity.

On the demand side, the Government is looking toward ways to enhance their efforts on four main initiatives, namely in Energy Efficiency and Conservation, Net-Metering, the Green Energy Option Program (GEOP), and Distributed Energy Resources (DER), designed to increase the awareness of electricity end-users, including companies and organizations that are planning to move forward with strategies related to decarbonization and green energy use.

Support from the private sector is also encouraging the move to shift from fossil fuels to RE. ACEN, the energy subsidiary of the Ayala Corporation, has pledged in October 2022 to a 100 percent renewable energy generation portfolio in 2025 by promoting RE sources and sells its coal-fired power assets (Jose, 2022). Air carrier Cebu Pacific has also installed solar panels in its offices and intends to use sustainable aviation fuel (composed of mostly biofuels) to power all its aircraft by 2030 (Balinbin, 2022).

4. Sustainable Finance Policies on the Move

The number of financial instruments for sustainable and climate financing has been on the rise.

In the Philippines, the publishing of Bangko Sentral ng Pilipinas (BSP) 1085 or the Sustainable Finance Framework (SFF) guidelines in 2020 kickstarted the process of integrating sustainability in financial institutions. These include the adoption of sustainability principles in banks and the integration of duties and responsibilities of the Board of Directors (BoDs) and senior management with such principles, and the guidance on the management of environmental and social (E&S) risks and/or opportunities and integrating such in existing documents and protocols. This includes the mandatory publishing of a sustainability report for all financial institutions.

The regulation was further modified by BSP Circulars 1128 (Environmental and Social Risk Management Framework), and 1149 (Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks). The two Circulars now include responsibilities, requirements, and guidelines for BODs and senior bank managers on the management and integration of E&S risks to credit risks and operational risks. In addition, BoDs and senior bank managers also are now given responsibilities on the integration of E&S risks in bank investments, as well as integration of E&S risks to risk measurement, monitoring, and management.

Philippine banks BDO Unibank and Security Bank also are participating in discussions on transition finance through their membership to the Asian Transition Finance Study Group, a group of banks in Asia that seeks to provide practical approaches to existing transition finance frameworks and to provide guidelines and support for assessing how to finance transition pathways leading to low carbon investments. This is on top of efforts to implement the ASEAN Green Bond Standards and ASEAN Sustainability Bond Standards that were adopted by the Philippine Government in 2018 and 2019, respectively.

BDO Unibank and the Bank of the Philippine Islands (BPI) are some of the growing choruses of banks that are also looking for finance more projects that have positive impact in the side of environmental and social issues. In September 2022, BDO declared that apart from the commitments on blue and green bond issuances in their latest SFF version in May 2022, they are committing to the limitation of coal powered project financing to two percent of the bank's total loan portfolio by 2033 (Velasco, 2022). As for BPI, they announced in August 2021 that apart from their SFF initiatives, that they will halve their coal-based investments by 2026 and reduce their exposure to coal assets to zero in 2033 (Dumlao-Abadilla, 2021).

Lastly, the Philippines has been a recipient of six projects from the Green Climate Fund since 2019, through the government-owned Land Bank of the Philippines and the Development Bank of the Philippines. Likewise, green bonds and loan facilities are available for public sector projects linked to sustainability.

5. Integrating Sustainability in Organizational Culture

With the increase in awareness in sustainability, the challenge of embedding the principles of sustainability within the organizational culture between the BoD, management, and an internal group of stakeholders (e.g., employees, supply, and value chains) is starting to emerge in the Philippines but has yet to go on the mainstream in the corporate sector in 2023.

In the Tourism sector, efforts have been made to integrate sustainability culture in hotels, resorts, restaurants, and events places. One such initiative is through the Transforming Tourism Value Chains Project of the UN Environment Programme (UNEP), in collaboration with the Philippine Center for Environmental Protection and Sustainable Development, Inc. (PCEPSDI), the Department of Tourism (DOT) and affiliated agencies, and hotel and restaurant organizations such as the Philippine Hotel Owners Association (PHOA). The aim of the project is in reducing greenhouse gas emissions and improving resource efficiency in key tourism sector value chains with high resource use through an increase in sustainable consumption and production (SCP) practices by businesses and tourists through more coherent actions in countries.

Emissions coming from tourism amount to 6.2 percent of estimated national emissions by economic sector in 2021, according to the Philippine Statistics Authority (PSA, 2022). However, a roadmap made by UNEP and Philippine tourism stakeholders are aiming for a 30% reduction in greenhouse gas emissions for hotels and MICE venues by 2030, among other commitments (UN Environment, 2019). It was hoped that these actions will strengthen the tourism sector's capacity for evidence-based decision-making and the mitigation of GHG emissions to improve resource efficiency in tourism value chain operations.

The project in the Philippines culminated in a best practice sharing of how hotels who participated in the project, such as in Club Paradise Palawan in Coron where they were successfully able to instill sustainability in their employees, local communities, customers and value chain through multi-party discussions, education, common shared values, and environmental stewardship.

Notable initiatives include the elimination of single use plastics in their operations and opting instead to use reusable tumblers and glass bottles, sourcing their food from farms within the hotel property instead of faraway sources and maintaining a food compost facility for food wastes, and operating a desalination facility instead of sourcing their water from distant sources. Overall, the project gained support from more than 40 establishments in the tourism sector in the Philippines and looks toward more tourism sector support in 2023.

NRI Manila supports companies in the Philippines in navigating through the sustainability and ESG spaces through its Sustainability Service components, and help companies plot their sustainability strategy through culture, systems, and reporting angles before starting on their journey to a more sustainable future.

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Jonas Marie Dumdum is a Consultant under the Industry Solutions Consulting (ISC) Sector of NRI Manila Branch, and with the NRI Manila Sustainability Service. He specializes in topics on corporate and environmental sustainability.

He is also the cohost and researcher of the Sustainarumble! Podcast, the first podcast in the Philippines that talks about issues on sustainable development. He is also 2022 Island Innovation Ambassador, 2022 European Climate Pact Ambassador for the Philippines, Climate Reality Leader and a member of the Society of Sustainability Practitioners and Sustainable PH.

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