Suruhanjaya Sekuriti
Securities Commission
Malaysia

OXFORD CENTRE
FOR
ISLAMIC STUDIES

Building good practices:

Measuring outcomes of sustainable and impact initiatives

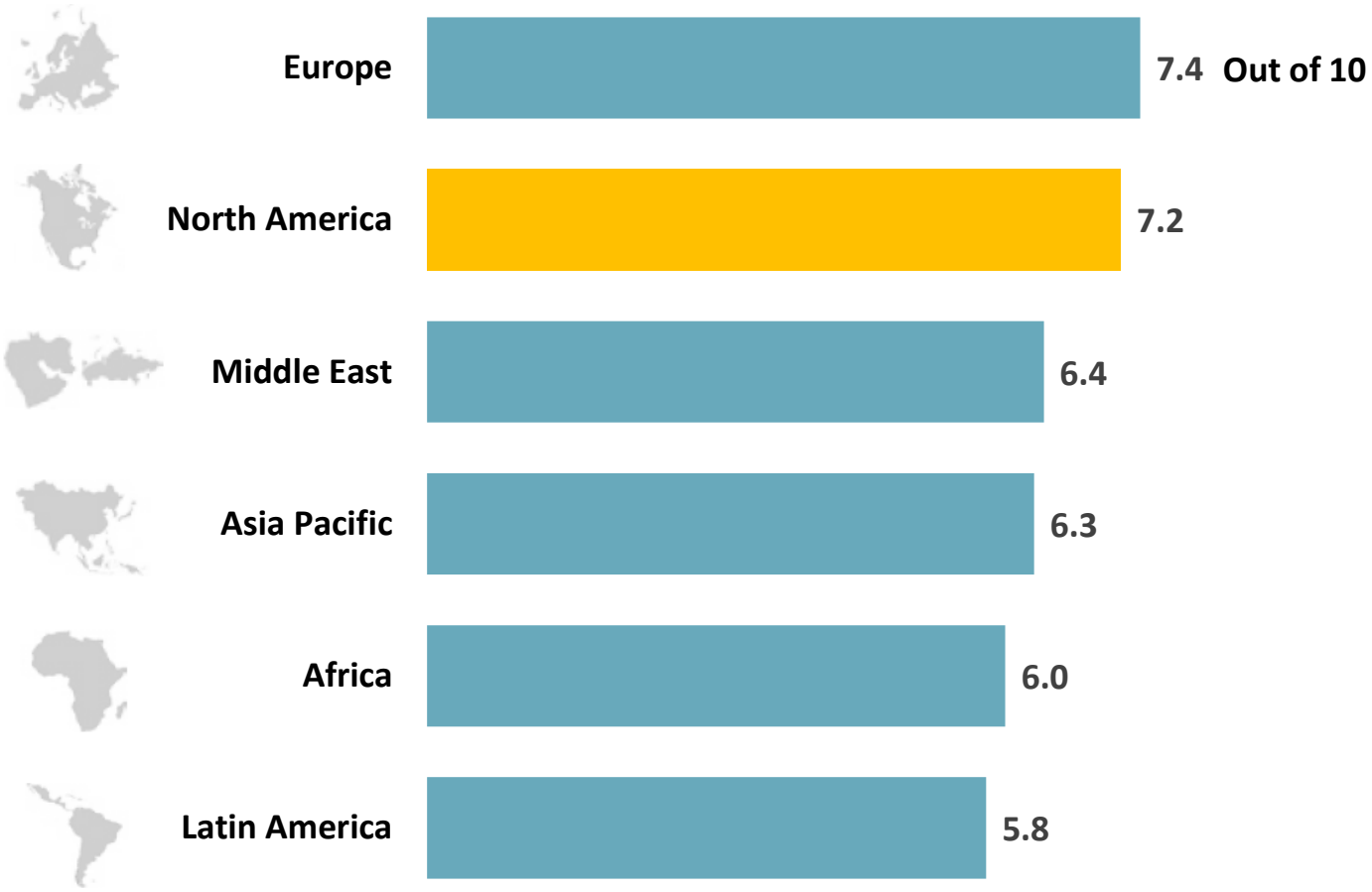
15th SC-OCIS Roundtable:
Restoring humanity in finance

8 September 2024

seneca
impact advisors

A matter of perspective (1)

EY Sustainable Finance Index [1]



Environmental

- Energy management and climate change
- Waste and water management
- Launching green products

Social

- Diversity and inclusion
- Providing a safe workspace
- Data protection and privacy

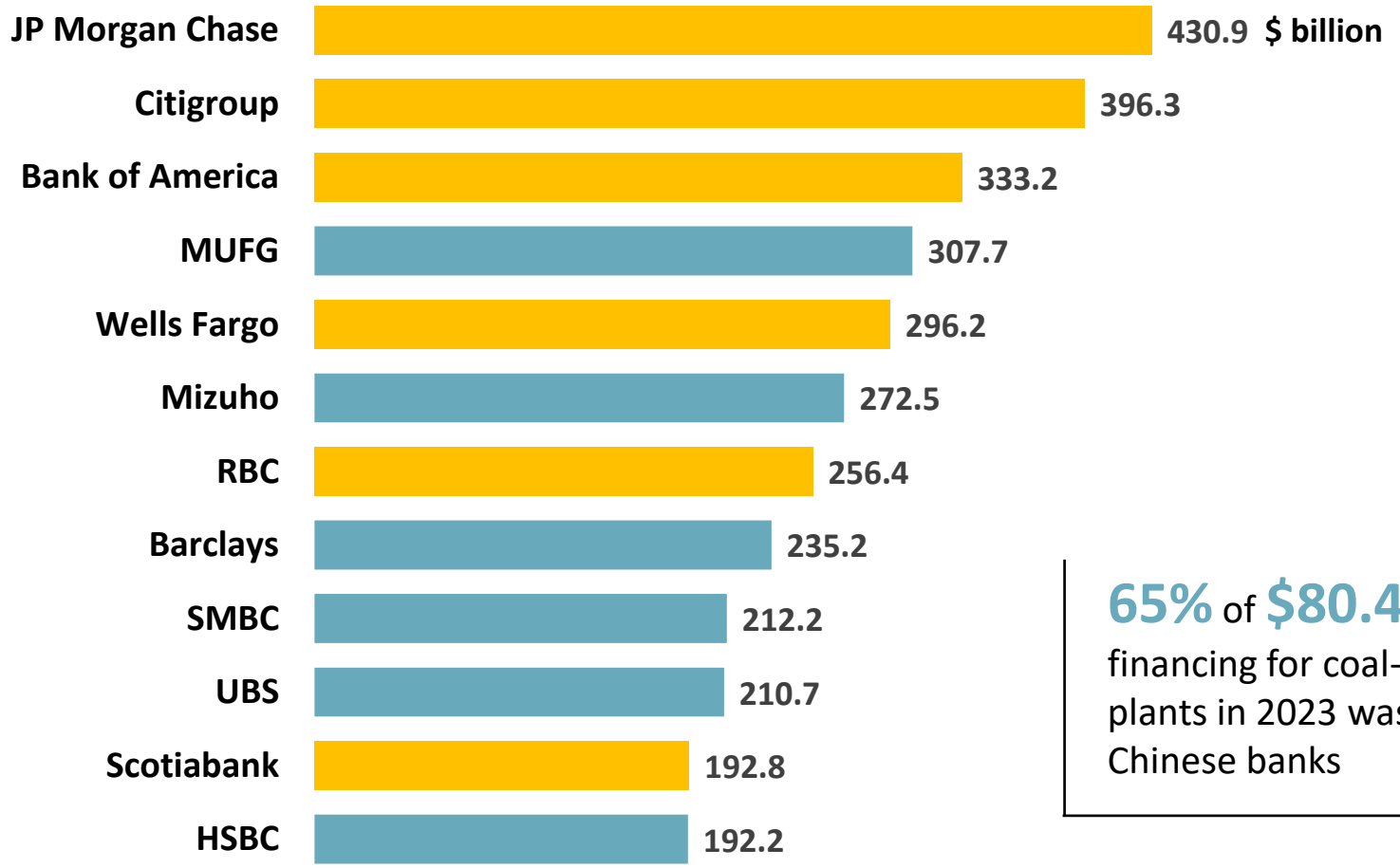
Governance

- Board effectiveness
- Transparency and control
- ESG governance

Sources: (1) EY Sustainable Finance Index 2023; Seneca

A matter of perspective (2)

Top financiers of fossil fuels since the Paris Agreement (2016 – 2023) [1]



Of the **$42.5 billion** in financing that went to coal mining companies in 2023, **81%** was provided by banks in China

65% of **$80.4 billion** of financing for coal-fired power plants in 2023 was provided by Chinese banks

Sources: (1) BankingOnClimateChaos.org; Seneca

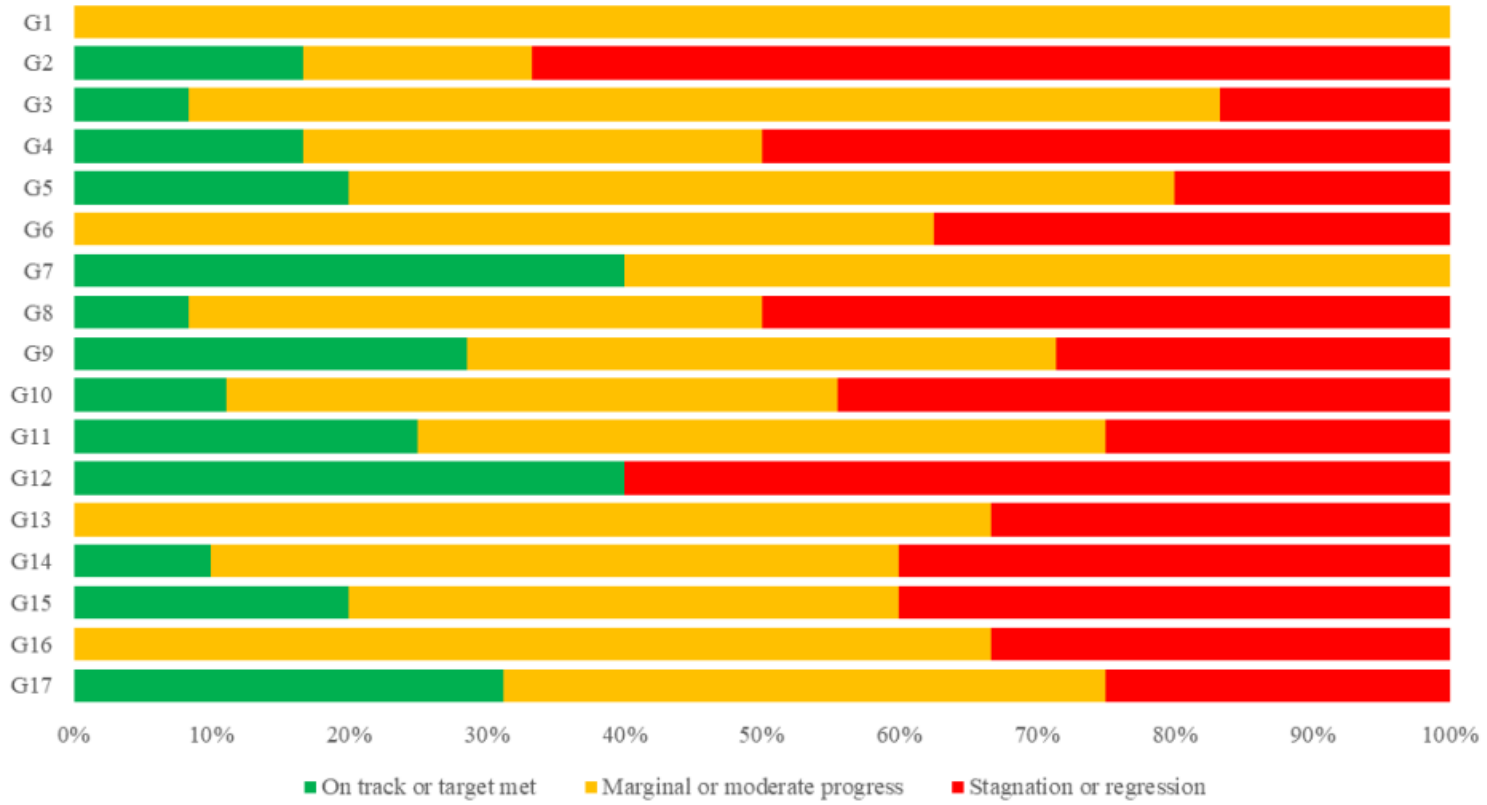
Sustainability standards – A few examples

Source: Seneca

SDGs – A principle / outcome-based approach

SDGs and progress up to 2024 [1]

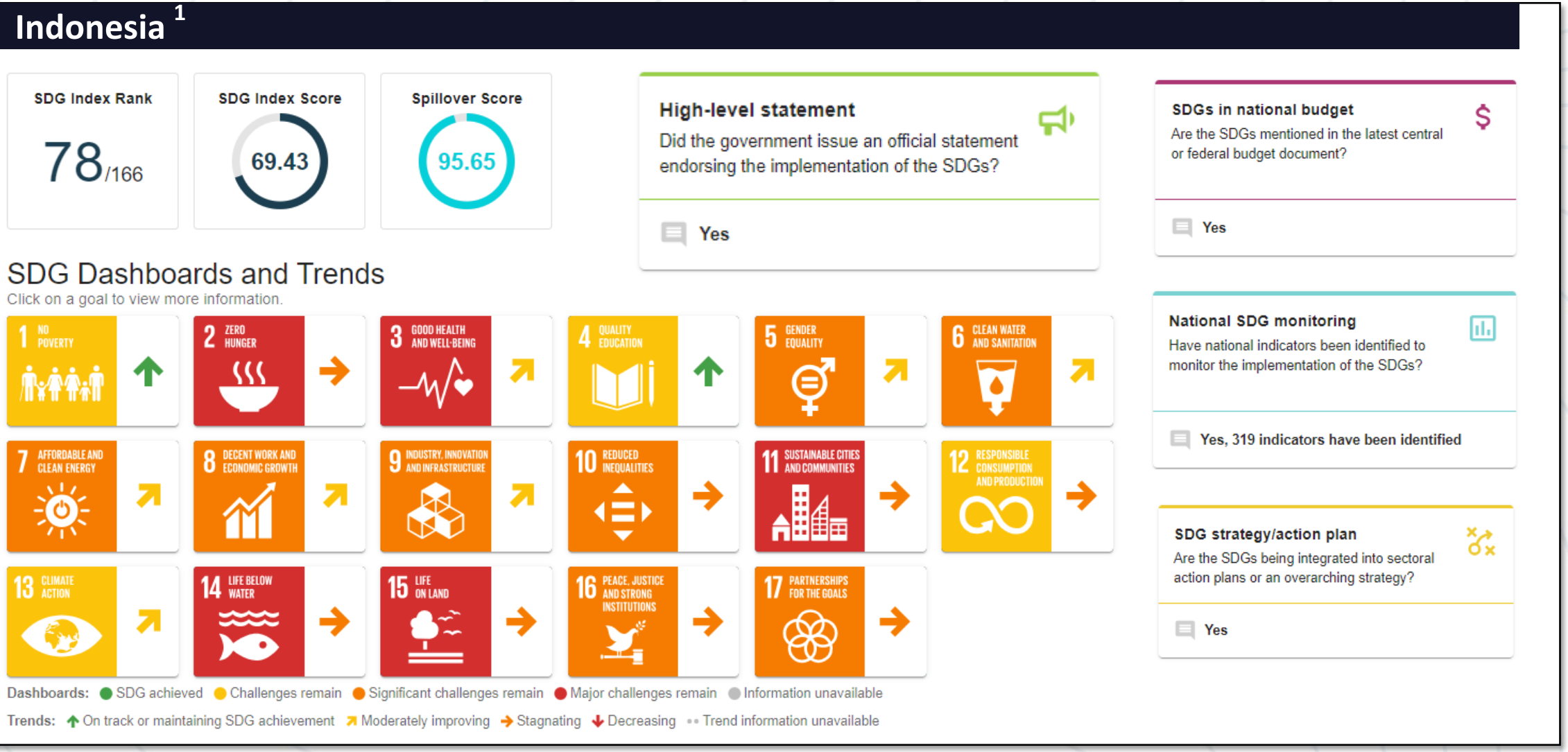
- **17** SDGs
- **8-12** targets / SDG
- **~1.5** indicators / target



Source: Progress towards the SDGs 2024, Seneca

SDGs in practice – Country level

Indonesia [1]



Source: Sustainable Development Report: Indonesia, Seneca

SDGs in practice – Project level

Seneca's impact framework is aligned with the SDGs

IMPACT DASHBOARD

XYZ Corp | AGRICULTURE | SUSTAINABLE COFFEE

70 mt CO_2e
sequestered / hectare of agroforestry-based farmland

3.5 kg CO_2e
Scope 1/2/3 emissions throughout the supply chain

Zero
chemical fertilizers and pesticides used on the farms

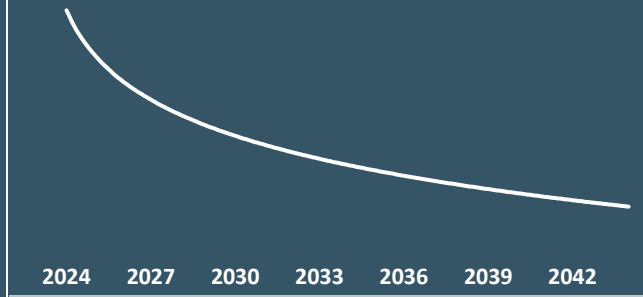
$7.5 million
accretion to smallholder farmer income over project life

SUSTAINABLE DEVELOPMENT GOALS

contributed to by the project

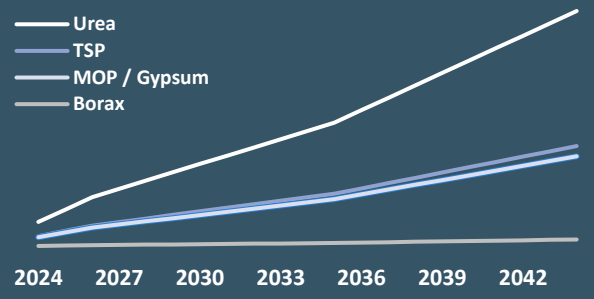
CARBON SEQUESTRATION

Net mt CO2e sequestered



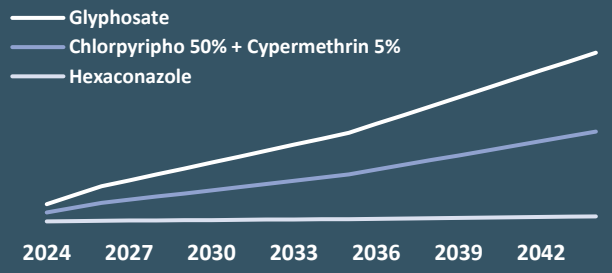
CHEMICAL FERTILIZERS AVOIDED

mt / ha / year



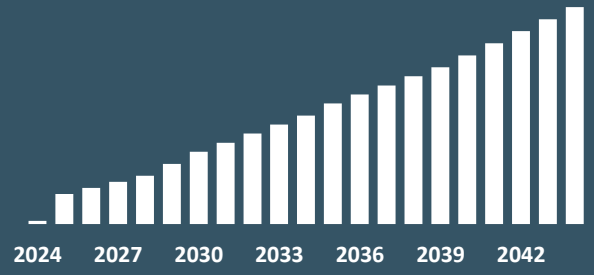
CHEMICAL PESTICIDES AVOIDED

liter / ha /year



SMALLHOLDER FARMER INCOME

$ / year

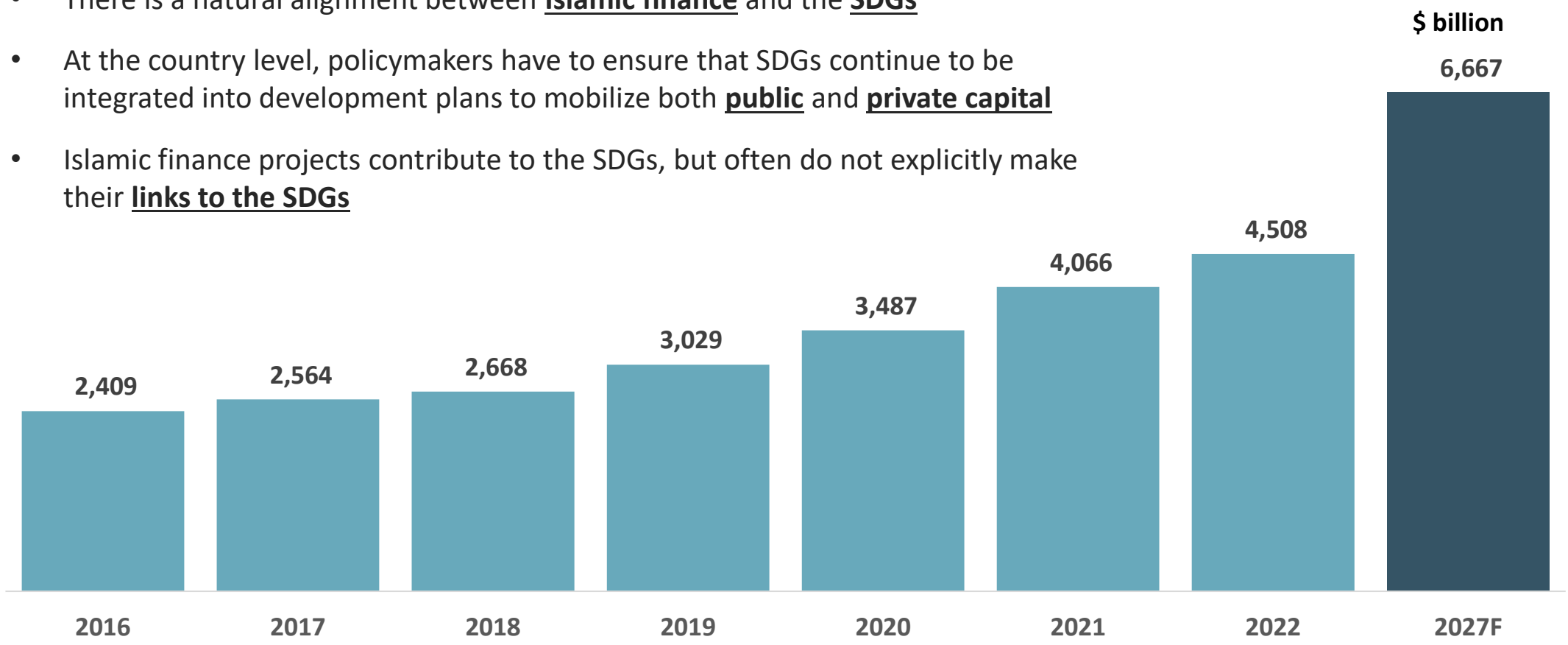


Source: Seneca

Islamic finance and SDGs

Islamic finance assets [1]

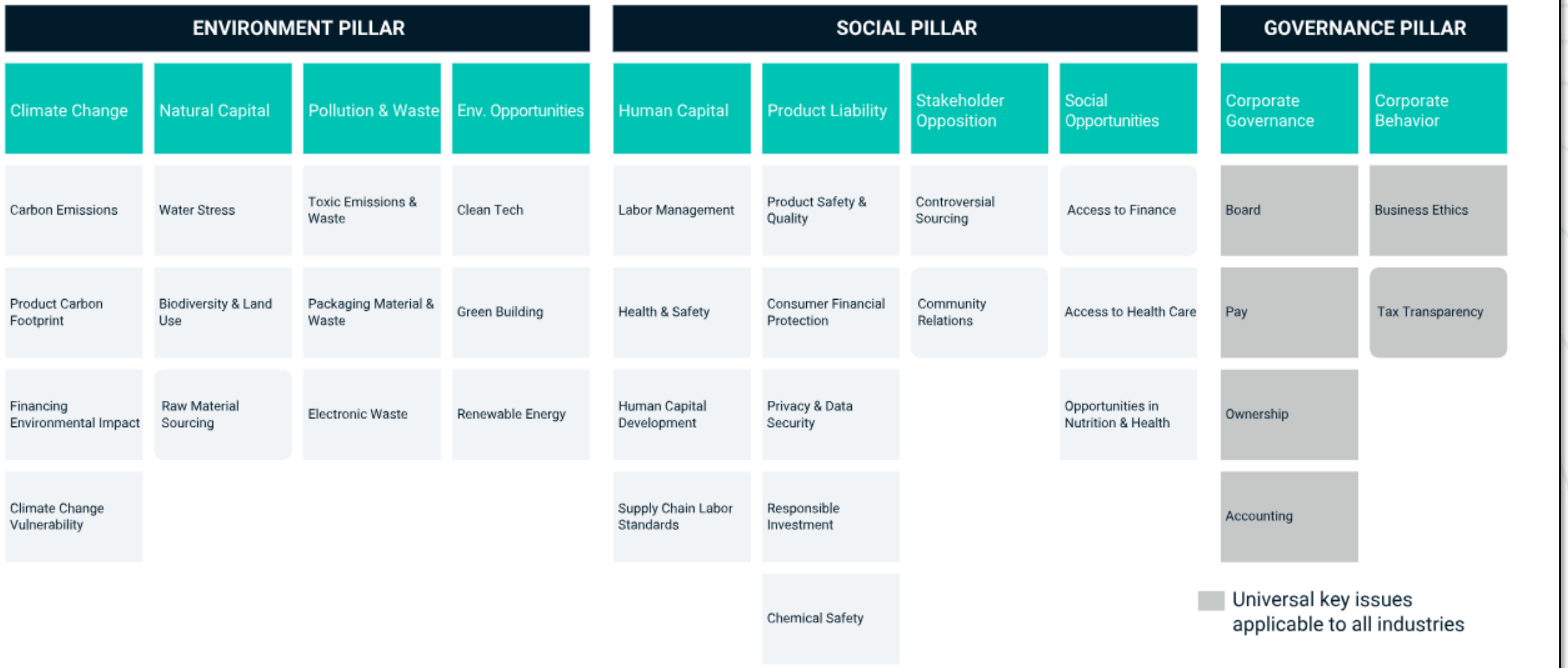
- There is a natural alignment between **Islamic finance** and the **SDGs**
- At the country level, policymakers have to ensure that SDGs continue to be integrated into development plans to mobilize both **public** and **private capital**
- Islamic finance projects contribute to the SDGs, but often do not explicitly make their **links to the SDGs**



Source: LSEG, Seneca

ESG indices / ratings – Investor-focused

MSCI ESG Score [1]



Source: MSCI, Seneca

ESG indices / ratings – Investor-focused

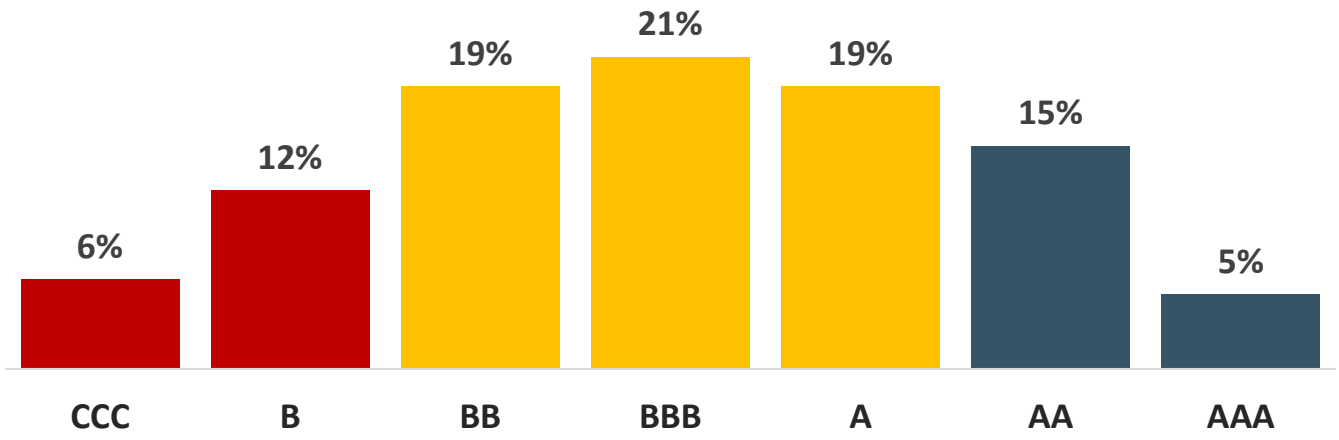
MSCI ESG Rating (8,700 companies across thousands of data points) [1]

CCC | B | BB | BBB | A | AA | AAA

LAGGARD
A company lagging its industry based on its high exposure and failure to manage significant ESG risks

AVERAGE
A company with a mixed or unexceptional track record of managing the most significant ESG risks and opportunities relative to industry peers

LEADER
A company leading its industry in managing the most significant ESG risks and opportunities



Environmental

- Climate change
- Natural capital
- Pollution and waste
- Environmental opportunities

Social

- Human capital
- Product liability
- Stakeholder opposition
- Social opportunities

Governance

- Corporate governance
- Corporate behavior

Source: MSCI, Seneca

ESG indices / ratings – Investor-focused

ESG index investing [1]

S&P ESG Index vs S&P 500 Index

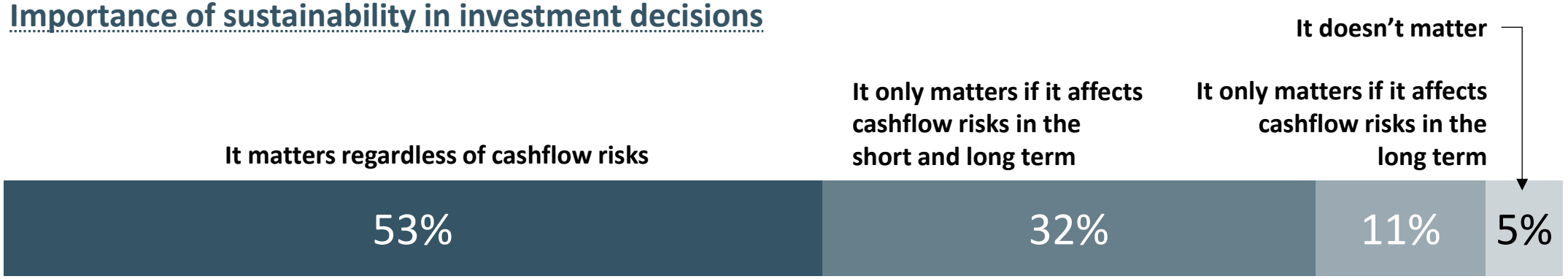
- ESG outperformance
- But other factors may be responsible as well (e.g. industry concentration)
- More specific use cases (e.g. decarbonization index)

Source: S&P, Seneca

Sustainable investor base

Investors not only consider sustainability to be vital – they are also willing to pay a premium

Importance of sustainability in investment decisions



Expected size of sustainability premium, other things equal

Sources: Investors Want to Hear from Companies about the Value of Sustainability, McKinsey; Seneca

TCFD – Business-focused

TCFD Principles [1]

1. **Disclosure should represent relevant information;**
2. **Disclosure should be specific and complete;**
3. **Disclosure should be clear, balanced, and understandable;**
4. **Disclosure should be clear over time;**
5. **Disclosure should be comparable among companies within a sector, industry, or portfolio;**
6. **Disclosure should be reliable, verifiable, and objective;**
7. **Disclosure should be presented on a timely basis.**

Source: TCFD, Seneca

Key takeaways

For policymakers, project owners and investors

- There are no one-size-fits-all impact measurement solutions
- SDGs provide a principle-based approach to guide decision-making
- There is a natural alignment between Islamic finance and the SDGs
- For investors and funders, sustainability standards have to be supplemented by specific measurement criteria
- For businesses, adopting a robust impact performance reporting framework will not only mitigate climate and environmental risks, but may also lead to new opportunities

Source: Seneca

Questions for discussion

For the panelists

- Many institutional investors are moving away from the “ESG” moniker and rebranding their products with terms such as “sustainable investing.” Would this trend towards sustainability as a broader concept render existing ESG standards obsolete?
- “Policies to address climate change are the business of elected officials and those agencies that they have charged with this responsibility. The Fed has received no such charge,” Fed Chairman Jerome Powell said. Do you agree with his view? Will this approach diminish financial regulators’ role in setting standards that are conducive to favorable sustainability outcome?
- Many businesses still see ESG, or broader sustainability efforts, as an expense item, rather an investment. How can we leverage existing standards to promote easier access to funding as an incentive to the private sector?
- Islamic finance is uniquely positioned to play a role to facilitate capital flows to sustainable projects. What are the challenges of linking SDGs to Islamic finance investments? Are there any alternatives?

Source: Seneca

About Seneca Impact Advisors

Seneca Impact Advisors is a specialist advisory firm based in Hong Kong with extensive experience and networks in the Asia-Pacific region. It specialises in developing innovative financial solutions for scalable and commercially viable nature and climate positive projects. Seneca's aim is to mobilise private-sector capital to protect and restore nature.

Seneca was formed to bridge the financing gap between traditional conservation and private investment capital seeking returns. There is a growing amount of capital with a willingness to invest in nature-based projects with highly impactful and measurable outcomes. However, there have been few scalable and commercially viable projects to attract investment capital. By working with leading NGOs, environmentally passionate entrepreneurs, and ESG-concerned corporates, the team at Seneca has been successfully originating and developing projects to meet the demand from funders. With enhanced public awareness about the climate crisis, biodiversity loss and resource depletion there is a significant amount of capital seeking nature and climate positive investments.

Structuring bankable projects requires knowledge of both conservation and investments. The team at Seneca combines its passion for the natural world with financial and technical expertise to help build commercially viable projects which contribute positively to the environment and society.

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