INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Green & Sustainable Finance: Guide for SMEs

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ISCA's Sustainability and Climate Change Committee (SCCC) comprises individuals with significant experience and subject matter expertise in sustainability-related matters.

The SCCC promotes the relevance of sustainability, climate change and related advances to business strategy and the accountant's role in advancing these agenda. It also furthers the adoption of quality sustainability reporting and advocates Singapore's interests in relation to sustainability reporting standards and requirements. These are executed with the support of three sub-committees – the Sustainability Reporting Quality Sub-Committee; Sustainability Excellence Sub-Committee; and Education Sub-Committee.

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Preface

The Singapore Green Plan 2030 was released in 2021. It is a whole-of-nation movement to advance Singapore's national agenda on sustainable development and to achieve our long-term net-zero emissions aspiration as soon as viable.[1]

The small and medium enterprises (SMEs) play a pivotal role in supporting the nation's efforts to transit to a low-carbon economy. SMEs can be leaner and nimbler compared to bigger corporations. They have the potential to bring with them innovation, technology and an entrepreneurial spirit to develop products and services to support sustainable development and climate action. To achieve this, substantial funding may be required.

This guide aims to provide a roadmap to businesses, in particular the SMEs, on how to access opportunities in green and sustainable finance. With the necessary funding, businesses can continue to innovate and drive commitment to reduce their carbon footprint and make the world a more liveable home for all and the many generations to come.

Accountants have long been regarded as trusted business partners in organisations. In this guide, we will also discuss the role of accountants in enabling companies to transform into sustainable businesses.

[1] Singapore Green Plan 2030 Charts Ambitious Targets for Next 10 Years to Catalyse National Sustainability Movement

A. Overview

International Green Finance Boom

At the United Nations Climate Change Conference (COP26) held in November 2021, countries and businesses were urged to reach net zero emissions by or around 2050 in order to realise the ambition of limiting global warming to 1.5°C above pre-industrial levels. Since then, countries and business leaders have scaled up commitments of funding, both public and private, for climate action. The United States will double its annual public climate finance to US$11.4 billion by 2024 while Germany is set to increase its climate funding from EUR 4 billion to EUR 6 billion per year by 2025.[2]

As of March 2023, 126 banks in 41 countries, representing about 41% of global banking assets, are members of the Net-Zero Banking Alliance (NZBA) and they have committed to aligning their lending and investment portfolios with net-zero emissions by 2050.[3] As the race to net zero pushes on with greater urgency than before, the financial sector, through green and sustainable finance in particular, will be instrumental in enabling a just transition because it can provide capital and efficient risk-sharing mechanisms. A just transition means greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.[4]

According to ***Green finance: a quantitative assessment of market trends***, a report released by TheCityUK and BNP Paribas on 31 March 2022, the global green finance market has ballooned from US$5.2 billion in 2012 to US$540.6 billion in 2021, representing an increase of over a hundredfold.[5] As of 21 October 2022, issuances amounting to US$29.82 billion have been issued under the ASEAN Green, Social and Sustainability Bond Standards, which were introduced in 2017 and 2018.[6]

One of the landmark breakthroughs at COP27, held in Sharm el-Sheikh, Egypt in November 2022, included an agreement to provide “loss and damage” funding for vulnerable countries hit hard by climate disasters. Much can be expected from Singapore in this area of climate funding as the nation aims to be a leading centre for green finance in Asia and globally.[7]

Green Finance Landscape in Singapore

In 2019, the Monetary Authority of Singapore (MAS) unveiled the Green Finance Action Plan with the objective of growing Singapore into a regional and global centre for green finance. For a start, MAS established a US$2 billion Green Investments Programme to invest in public market investment strategies that have a strong green focus, supporting Singapore in promoting environmentally sustainable projects and mitigating climate change risks in Singapore and the region.[8]

MAS also convened a financial industry taskforce, the Green Finance Industry Taskforce (GFIT), to accelerate the development of green finance in Singapore. In 2021, the GFIT has issued a white paper on fostering green finance solutions.[9] The paper discussed best

[2] https://www.bakermckenzie.com/en/insight/publications/2021/11/public-and-private-finance-for-climate-action
[3] Net-Zero Banking Alliance – United Nations Environment – Finance Initiative (unepfi.org)
[4] Frequently Asked Questions on just transition (ilo.org)
[5] Green finance: a quantitative assessment of market trends | TheCityUK
[6] ACMF_37th Chairs' Meeting_ Press Release.pdf (theacmf.org)
[7] Singapore aims to be a leading centre for green finance in Asia and globally | Green Future
[8] New US$2 billion Investments Programme to Support Growth of Green Finance in Singapore (mas.gov.sg)
[9] fostering-green-finance-solutions-white-paper.pdf (abs.org.sg)

practices, key measures and resources needed to develop the green finance ecosystem in Singapore and also formulated recommendations for the industry and policymakers.

In 2022, MAS further partnered the industry to develop digital utilities that facilitate the efficient flow of trusted ESG data, to support financial institutions and businesses in mobilising capital to sustainable projects, monitoring commitments and measuring impact.[10]

As outlined in the Singapore Green Plan 2030, this transition to green finance is part of the nation's wider plan to leverage green growth opportunities to allow Singapore to be both environmentally and financially sustainable in its growth. In the Budget Statement 2022, Deputy Prime Minister and Minister for Finance, Mr Lawrence Wong, shared that Singapore is a regional leader, accounting for close to half of the green bond and green loan market in ASEAN.[11] He reiterated Singapore's ambition to be at the forefront of developing this new engine of growth in the green economy. Leading by example in this transition to a low carbon economy and to spur the nation's development as a green finance hub, MAS established the Singapore Green Bond Framework in June 2022, a governance framework for sovereign green bond issuances. This was quickly followed by the MAS launching Singapore's S$2.4 billion 50-year inaugural sovereign green bond issued under the Singapore Green Bond Framework and offered to both institutional and individual investors in August 2022.[12] The government has also announced plans to issue up to S$35 billion of green bonds by 2030 to finance public sector green infrastructure projects.[13]

[10] Green FinTech (mas.gov.sg)
[11] MOF | Budget 2022
[12] Singapore Prices S$2.4 billion 50-year Inaugural Sovereign Green Bond; Public Offer now Open for Individual Investors (mas.gov.sg)
[13] Singapore Green Bond Framework Introduced for Upcoming Inaugural Singapore Sovereign Green Bond Issuance (mas.gov.sg)

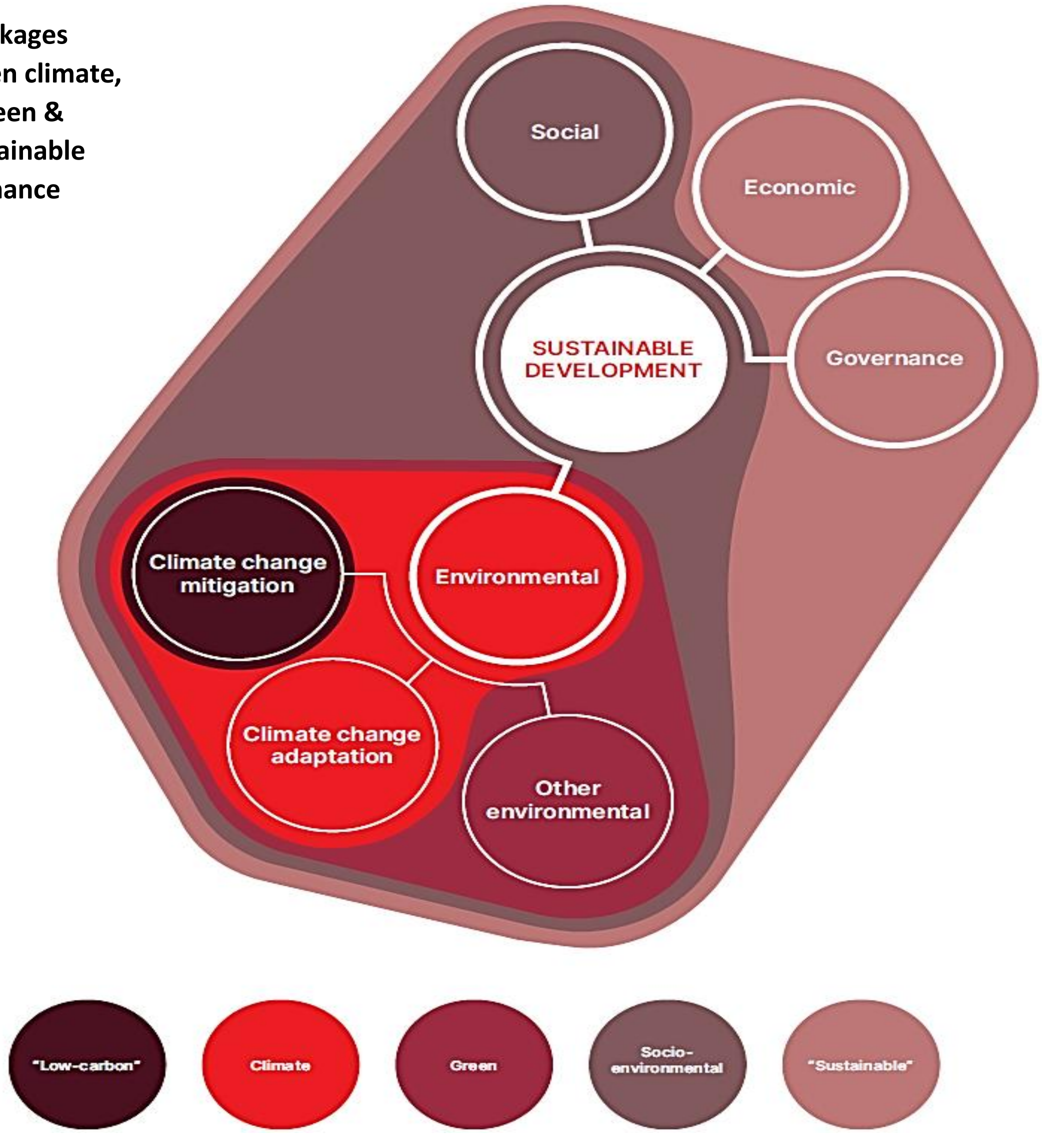
B. Key concepts

Sustainable Finance

Sustainable finance is defined as investment decisions that take into account the environmental, social and governance (ESG) factors of an economic activity or project. It will increase the volume of funds, from private and public investors or financial institutions, flowing into projects with positive contributions to sustainability development.

Green finance is a subset of sustainable finance. It refers to sustainable financing instruments, such as loans, debts and investments, to address environmental, including climate-related objectives, but excludes the social and economic aspects. Climate finance, a subset of green finance, refers to funds that go towards efforts to cut greenhouse gas emissions or to help nations adapt to climate impacts and green their economies.[14]

Linkages between climate, green & sustainable finance



Source: https://www.iso.org/files/live/sites/isoorg/files/store/en/PUB100458.pdf

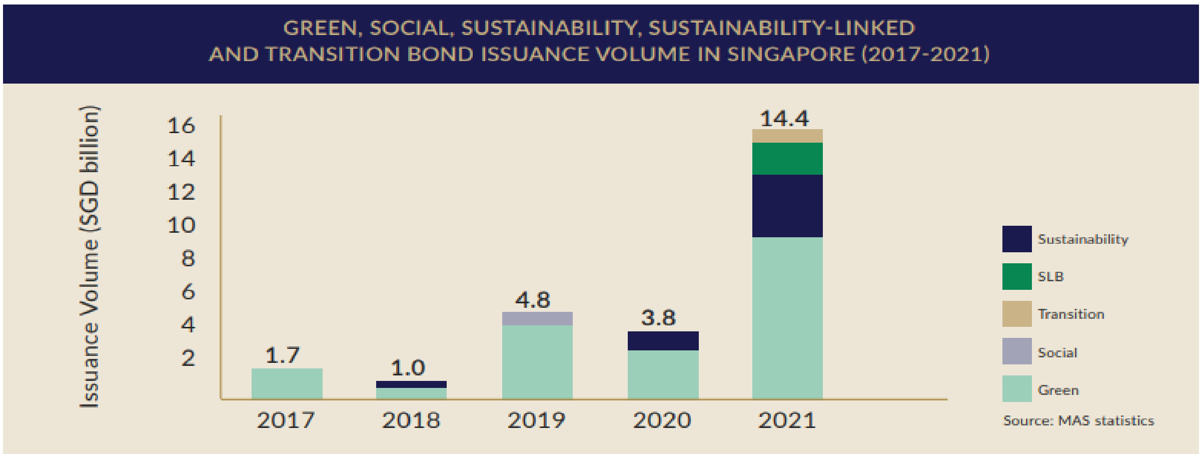
[14] Expanding Singapore's climate finance contributions to be negotiated: Grace Fu | The Straits Times

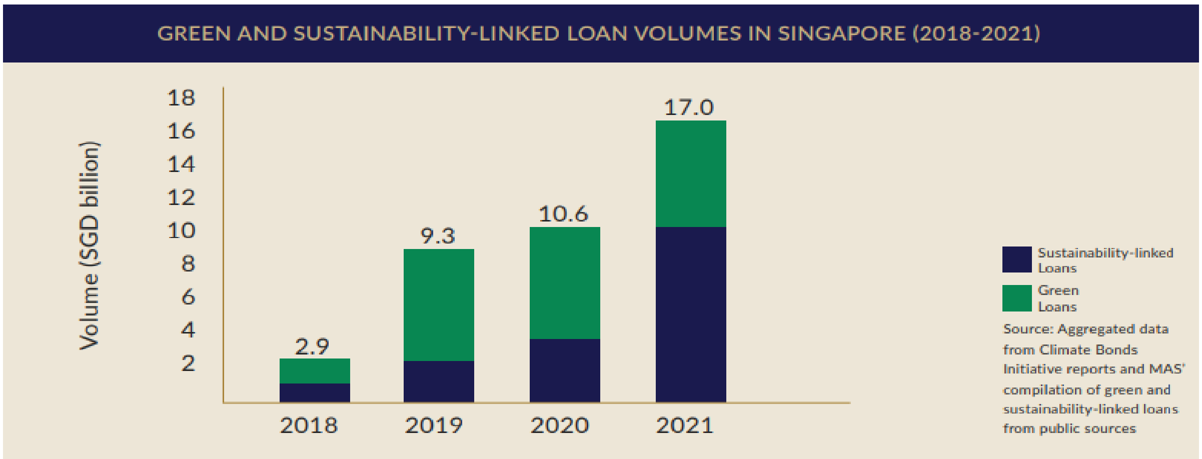
For the purpose of this guide, we will focus on **green bonds, green loans, sustainability-linked bonds (SLB) and sustainability-linked loans (SLL).**

Green bonds are any type of bond instruments where the bond proceeds will be exclusively applied to finance or re-finance new and/or existing eligible green projects.[15] **Green loans** are akin to green bonds in that it raises capital for eligible green projects.[16]

SLBs or SLLs are bonds or loans issued with varying financial or structural characteristics depending on whether the issuer or borrower achieves some pre-defined sustainability performance objectives. If pre-defined sustainability targets are met, borrowers of SLLs could enjoy reduction in interest rates. Proceeds from SLBs and SLLs can be used for general business purposes and are not solely limited to green developments or projects.

Given its flexibility in the use of the loan proceeds, the market's preference for SLLs is hardly surprising. From 2018 to 2021, green loans and SLLs issued in Singapore reached a total volume of S$39.8 billion. Of which, the most phenomenal growth observed during this period was in SLLs.





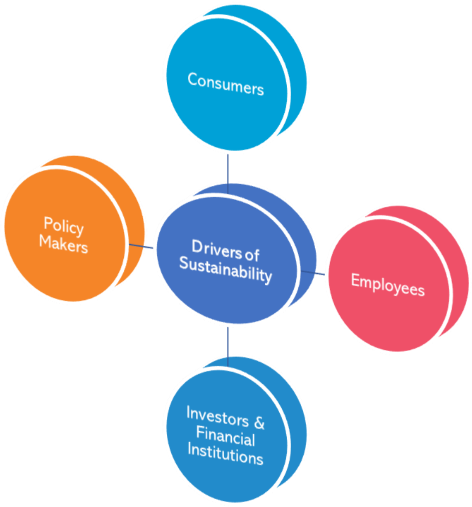
Source: MAS Sustainability Report 2021/2022

[15] Green Bond Principles » ICMA (icmagroup.org); see **Appendix A** for a non-exhaustive list of eligible green projects categories
[16] Green Loan Principles - LSTA

Drivers for Prioritising Sustainability in Business Strategies

With mounting pressure from various stakeholders, such as consumers, employees, investors, financial institutions and policy makers, organisations need to re-examine their ESG-related initiatives to stay competitive and relevant.

Consumers



Communications firm SEC Newgate conducted a survey on more than 10,000 consumers across 12 countries and territories and shared in its ***2022 Global ESG Monitor Report*** that 78% of the respondents agreed that companies have a responsibility to behave like a good citizen and consider their impacts on other people and the planet.[17] These respondents were highly motivated to call out corporate behaviour which failed to deliver good environmental and ethical standards. In the same report, 50% of the consumers surveyed shared that they had avoided using a company's products or services because they disagreed with the company's ESG practices.

Employees

There appeared to be a resounding theme in the vast majority of surveys conducted on the Gen Z workforce, commonly referring to those born between 1995 and 2010. When surveyed, Gen Z employees expressed an inclination to work in organisations which share their own personal ethos of being ESG conscious.

Investors and Financial Institutions

Investors are increasingly recognising that they may not necessarily have to make a trade-off between returns on their investments and positive contribution to climate and sustainability initiatives. Similarly, financial institutions are increasingly incorporating more ESG considerations into their financial decision-making processes. With more banks joining the NZBA and committing to the global banking community's collective transition to zero, it is a matter of time before banks cease to provide new funding to the high carbon-emitting companies.

Policy Makers

Singapore introduced carbon tax in 2019. At present, carbon tax is at S$5/t$CO_2$e. In 2024 and 2025, it will be raised to $25/t$CO_2$e, followed by $45/t$CO_2$e in 2026 and 2027, and eventually reaching $50-80/t$CO_2$e by 2030.[18] This provides a strong signal to companies to reduce their carbon emissions in line with the nation's ambition to achieve net zero emissions by or around mid-century. On 25 October 2022, Mr Lawrence Wong announced that Singapore will commit to shorter timelines for reducing greenhouse gas emissions. Singapore will now aim to reduce greenhouse gas emissions to around 60 million tonnes of carbon dioxide equivalent (MtCO_2e)

[17] Global Report 2022 - Reports - ESG Monitor | SEC Newgate
[18] NEA | Carbon Tax

in 2030, replacing the previously set target of 65 $MtCO_2e$.[19] With a revised target that is demonstrably more ambitious, tougher climate policies are expected to follow.

Stakeholders' preferences are likely to evolve with time. Hence, it is imperative for companies to constantly engage them to understand their needs and priorities within the ESG dimensions. Only with a good understanding of what are important to stakeholders can companies embed appropriate ESG strategies as part of their overall corporate strategy.

Integrating Green Finance into the Business Strategy

To enhance competitiveness and stay relevant, businesses must review their operations and portfolio of products and find innovative ways to reduce their carbon footprint. Green finance can open new avenues for companies to gain access to an expanded pool of investors and financial institutions who are aligned with their sustainability strategies. Companies that are able to demonstrate their ESG credentials can also potentially enjoy a significant reduction in lending interest rates and are able to access capital more freely.

Companies must bear in mind that green finance is an enabler to transit to a low-carbon economy and is not an end in itself. The adoption of green finance can demonstrate an organisation's strong commitment to sustainability and bolster the organisation's reputation and credibility. However, companies that ultimately do not walk the talk risk being labelled as "greenwashing" enterprises.

Role of Accountant

As established trusted business partners, accountants can help to engage the Board and Executive Management (EM) by identifying the sustainability risks and opportunities that are material to the organisation and assess their impacts on the company's long-term business performance and value creation. Accountants can also share with the Board and EM the key ESG priorities shared by the company's stakeholders. This will facilitate them in accurately embedding ESG initiatives within the company's corporate strategy.

Accountants will also be required to support the Board and EM to set, measure and report key performance indicators and targets to ensure the organisation is moving towards its sustainability goals. Additionally, accountants have a vital role in ensuring compliance with ESG regulations, reporting requirements and responding to investor requests.

To achieve sustainability outcomes, significant investments are inevitable. Accountants can help organisations review their sources of funding to secure the most cost-effective financing in their pursuit of net-zero strategy. With the urgent need to mitigate climate change, there is a growing interest in green finance. Accountants can facilitate the understanding of how green finance can be an enabler for transformation to a sustainable business by providing meaningful data and analysis to support the Board and EM in making informed business, investment and financing decisions.

[19] Singapore to commit to net zero by 2050, peak emissions before 2030: DPM Wong , International - THE BUSINESS TIMES

Sustainable Finance Principles and Frameworks

There are several internationally recognised principles and frameworks governing sustainable finance.

The Green Bond Principles (GBP) and Sustainability-Linked Bond Principles (SLBP) were developed by the International Capital Market Association (ICMA). Representatives from leading financial institutions active in the global syndicated loan markets, built on the GBP and developed the Green Loan Principles (GLP) and Sustainability-Linked Loan Principles (SLLP). Although these principles/frameworks are voluntary process guidelines, they are aimed at promoting the development and preserving the integrity of green and sustainable finance products.

Green Bond Principles/Green Loan Principles (GBP[20]/GLP[21])

GBP/GLP recommend clear process and disclosure guidelines for an issuer/borrower to understand the characteristics of any given green bond or green loan. These guidelines aim to preserve market integrity by emphasising the required transparency, accuracy and integrity of the information that will be disclosed and reported through the following four components:

Green Bond Principles / Green Loan Principles	***Use of Proceeds:*** Issuer/borrower to declare eligible green projects categories upfront and to highlight clear environmental benefits. A non-exhaustive list of eligible green projects categories may be found in Appendix A.
	Process for Project Evaluation and Selection*:* Issuer/borrower to outline the project selection process and work to establish environmental sustainability objectives.
	Management of Proceeds: Proceeds from bonds/loans should be credited to a dedicated account or otherwise tracked in an appropriate manner to maintain transparency and integrity.
	Reporting: On an annual basis, issuer/borrower should readily provide up-to-date information on the use of proceeds in case of material developments.

[20] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/
[21] https://www.lsta.org/content/green-loan-principles/

Sustainability-Linked Bond Principles and Sustainability-Linked Loan Principles (SLBP[22] and SLLP[23])

The SLBP/SLLP outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the SLB and SLL market.

The SLBP/SLLP have the following five core components:

Sustainability-Linked Bond and Loan Principles	***Selection of Key Performance Indicators (KPIs):*** KPIs must be relevant, core and material to the overall business of the issuer/ borrower. KPIs must be measurable or quantifiable, externally verifiable and able to be benchmarked as much as possible using external references.
	Calibration of Sustainability Performance Targets (SPTs): The process for calibration of one or more SPT(s) per KPI is key to the structuring of SLBs/SLLs. SPTs must be set in good faith and the issuer/borrower should disclose strategic information that may decisively impact the achievement of the SPTs. SPTs must demonstrate a “material improvement” beyond the business-as-usual for the issuer/borrower.
	Bond/Loan Characteristics: A key characteristic of a SLB/SLL is that an economic outcome is linked to whether the selected pre-defined SPTs are met. It is recommended that the variation of the financial and/or structural characteristics of the SLB and SLL should be commensurate and meaningful relative to the financial characteristics of the original bond/loan.
	Reporting: Issuer/borrower should, where possible and at least annually, provide up-to-date information on the SLB/SLL to allow investor/lender to monitor the performance of the SPTs and to determine if the SPTs continue to be ambitious and relevant to the business.
	Verification: Issuer/borrower must obtain independent and external verification of their performance level against the SPT(s) for each KPI by a qualified external reviewer with relevant expertise, such as an auditor or an environmental consultant, at least once a year. The results of the verification should be made publicly available.

ASEAN Green Bond Standards (ASEAN GBS) and ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS)

The ASEAN Capital Markets Forum (ACMF) was established in 2004 and comprises of a high-level grouping of capital market regulators from all 10 ASEAN jurisdictions, namely Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

The ACMF developed the ASEAN Green Bond Standards (ASEAN GBS) and ASEAN Sustainability-Linked Bond Standards (ASEAN SLBS) based on the GBP and SLBP, tailoring to the financing needs in ASEAN. These Standards aim to facilitate the ASEAN capital markets in tapping sustainable finance to support sustainable regional growth and meet investor interest for green and sustainable investments.[24]

[22] Sustainability-Linked-Bond-Principles-June-2020-171120.pdf (icmagroup.org)
[23] Guidance on Sustainability Linked Loan Principles (SLLP) - LSTA
[24] ASEAN Capital Markets Forum (theacmf.org)

ASEAN GBS[25]

The ASEAN GBS, aligned and guided by the GBP, aim to provide more specific guidance on how the GBP are to be applied across ASEAN in order for green bonds to be labelled as ASEAN Green Bonds.

ASEAN Green Bond Standards	***Eligible Issuers*****:** To create a green asset class for the ASEAN region, the issuer or issuance of the green bond must have a geographical or economic connection to the region.
	Ineligible Projects**:** Fossil fuel power generation projects are excluded from the ASEAN GBS.
	Continuous Accessibility to Information: Issuers must disclose information on the use of proceeds, process for project evaluation and selection, and management of proceeds to investors in the issuance documentation, as well as ensuring such information is publicly accessible from a website designated by the issuer throughout the tenure of the ASEAN Green Bonds.
	Encourage More Frequent Reporting: In addition to annual reporting, issuers are encouraged to provide more frequent periodic reporting which would increase transparency on the allocation of proceeds and investor confidence on the ASEAN Green Bonds.
	External Review: Appointment of an external reviewer is voluntary. External reviewers need to have the relevant expertise and experience in the area which they are reviewing. The external reviewers' credentials and scope of review conducted must be made publicly accessible from a website designated by the issuer throughout the tenure of the ASEAN Green Bonds.

ASEAN SLBS[26]

The ASEAN SLBS was launched in October 2022 and aim to provide more specific guidance on how the SLBP are to be applied across ASEAN. Issuers who wish to issue and label SLBs as ASEAN Sustainability-Linked Bonds must demonstrate compliance with the ASEAN SLBS. Thus, the ASEAN SLBS will provide certainty to investors that SLBs labelled as ASEAN Sustainability-Linked Bonds have met uniform standards while providing issuers with guide rails on best market practices for SLBs.

The ASEAN SLBS, aligned and guided by the five core components of the SLBP, include the following additional key features:

[25] AGBS2018.pdf (theacmf.org)
[26] ASEAN Sustainability-linked Bond Standards.pdf (theacmf.org)

ASEAN Sustainability-Linked Bond Standards	***Eligible Issuers*****:** To create a sustainable asset class for the ASEAN region, the issuer or issuance of the SLB must have a geographical or economic connection to the region.
	Continuous Accessibility to Information**:** Issuer needs to disclose information on the ASEAN Sustainability-Linked Bond's KPIs, SPTs, bond characteristics, reporting and verification in the relevant pre- and post-issuance documentation, as well as ensuring such information is publicly accessible from a website designated by the issuer throughout the tenure of the ASEAN Sustainability-Linked Bonds.
	Encourage More Frequent Reporting: In addition to annual reporting, issuers are encouraged to provide more frequent periodic reporting which would increase transparency and investor confidence in the ASEAN Sustainability-Linked Bonds.
	Increased Transparency on Reporting Timeline: In addition to annual reporting, issuers are encouraged to provide more frequent periodic reporting which would increase transparency and investor confidence in the ASEAN Sustainability-Linked Bonds.
	External Review**:** Issuers must appoint external reviewer to review the issuer's SLB framework. Considering the nascent stage of SLB market development in ASEAN, external reviewers should have the relevant expertise and experience in the area which they are reviewing. The external reviewers' credentials and scope of review conducted must be made publicly accessible from a website designated by the issuer throughout the tenure of the ASEAN Sustainability-Linked Bonds. Such disclosure will contribute towards awareness creation and increased investor confidence.
	Encourage Alignment of KPIs with Sustainable Development Goals**:** Issuers are encouraged to align the KPIs of the ASEAN Sustainability-Linked Bonds with the Sustainable Development Goals (SDGs).

Climate Bonds Initiative (CBI)[27]

The CBI is an international organisation which seeks to activate mainstream debt capital to finance and refinance climate-aligned projects to achieve international climate goals. A key component of the Initiative is the Climate Bonds Standard & Certification Scheme (certification). Bonds that receive the certification are aligned with the Paris Agreement, i.e., net zero emissions by 2050 or earlier. The certification scheme allows issuers to demonstrate to the market that their bonds meet best practice standards for climate integrity, management of proceeds and transparency.

Bonds which are verified to conform with the Climate Bonds Standard are called "Certified Climate Bonds". These "Certified Climate Bonds" will be included in the "Certified Bonds Database" maintained by the CBI to give investors the needed assurance and allow them to save time and resources in analysing the low-carbon credentials of investments.

[27] Climate Bonds Initiative | Mobilizing debt capital markets for climate change solutions

C. Roadmap to obtaining sustainable finance

1. **Step 1:** Is Sustainable Finance Suitable for My Organisation?
2. ***Step 2:** Obtain Commitment from the Board and Executive Management
3. ***Step 3:** Engage with Financiers and Service Providers
4. **Step 4:** Consider Available Grant Schemes
5. **Step 5:** Pre- and Post-Origination Requirements and Procedures (Green loans & SLLs)

** Step 3 may at times take place before Step 2 as certain organisations may prefer to engage with financiers first to understand the options available in order to provide more information to the Board and Executive Management for decision making.*

Step 1: Is Sustainable Finance Suitable for My Organisation?

Organisations should review the business case for sustainable funding and consider how it fits into their overall financing objectives and sustainability strategy. As part of this process, the organisation can review its existing and planned projects or expenditures. If there are any green projects or planned expenditures for green projects (see Appendix A), the organisation may consider the viability of green finance to fund these projects or expenditures.

If the organisation requires funding for general business purposes, it can review if there are any existing sustainability commitments made, targets set or plans to do so. It can then consider SLBs or SLLs which could incentivise the attainment of these outcomes while potentially allowing the organisation to enjoy cost savings on its interest rates.

Case in Point

Dyna-Mac Holdings Ltd ("Dyna-Mac"), a local company listed on the Singapore Exchange, specialises in modular construction for energy products, carbon capture storage and high-quality piping for greener fuels. It entered into challenging times during the Covid lockdown in Singapore and the oil price crash. In March 2020, Dyna-Mac embarked on its sustainability journey with the objective of cost reduction. Under the advice of its financier, OCBC, Dyna-Mac set realistic and practical sustainability targets to reduce its carbon emission intensity by 25% in 5 years. This includes changing from fluorescent to LED lighting in its facility and switching from diesel power to electrical power in its operations. OCBC incentivises Dyna-Mac by converting its credit facility into a sustainability-linked loan where Dyna-Mac could enjoy lower interest rates when sustainability targets are met.

As Mr Lim Ah Cheng, Executive Chairman & CEO of Dyna-Mac, shared, a journey of a thousand miles begins with a single step, a company's sustainability journey can start with these "low hanging fruits" which are highly achievable and could give the company confidence to set more ambitious targets progressively.

Case in Point

Chew's Agriculture, a local SME and leading egg producer, wanted to construct a new farm with larger cage-free facilities to provide their hens with optimum living conditions. Chew's Agriculture leveraged a 10-year, S$ 27 million sustainability-linked loan by DBS to achieve its ambition. Under the terms of the loan, Chew's Agriculture will enjoy lower interest rates if it meets the Humane Farm Animal Care (HFAC) standards such as providing livestock access to wholesome and nutritious feed, having appropriate environmental design, implementing caring and responsible planning and management of livestock, and providing skilled, knowledgeable conscientious animal care, factors which contribute to more nutritious eggs. Through incorporating the HFAC standards, Chew's Agriculture improved the well-being of their hens which resulted in better quality of eggs produced.[28]

Step 2: Obtain Commitment from the Board and Executive Management (EM)

As sustainable financing strategies need to be aligned with the organisation's overall sustainability objectives, obtaining the buy-in of the Board and EM is imperative. The Board must be engaged in reviewing the strategic objectives and business case for sustainable financing, to consider all ESG factors in corporate development, funding and investment strategies. The EM must be committed to implementing sustainable strategies and meeting sustainability targets. Once the company decides to embark on sustainable financing, there is also a need to set up internal governance and processes to comply with sustainable financing standards and frameworks, including data collection and monitoring systems. Having commitment from the organisation's leadership is key to enabling these.

Case in Point

Mr Lim shared that increasingly more and more of Dyna-Mac's customers have shown their preference to deal with companies with sustainable practices. The Board and Executive Management of Dyna-Mac believed that they need to future-proof the business by embarking on a sustainability journey and have committed to steer the company in this journey. To ensure that the strategic direction of the company is understood by all employees in Dyna-Mac, Mr Lim spent time explaining to staff on the need for more sustainable business practices. He also encouraged staff to give suggestions on how the company can do more in this direction.

Step 3: Engage with Financiers and Service Providers

As green and sustainability-linked loans typically originate from banks, companies can approach their bankers to enquire on customised green and sustainable financing solutions. With clients spanning over a wide range of industries, the banks could also potentially help businesses advance their sustainability ambition by introducing possible collaborators within the value chain.

[28] Chew's Agriculture signs Singapore's first SME sustainability-linked loan with DBS

Currently, some of the banks are offering green finance solutions to local SMEs. The list of bank offerings below is by no means exhaustive or representative of the green finance markets[29]:

DBS issued its Sustainable & Transition Finance Framework & Taxonomy in 2020 to offer a range of banking solutions from structuring green loans and bonds to SLLs, renewable energy financing and sustainable investing to help multinationals and SMEs contribute to sustainable development. DBS has committed to finance S$50 billion in this regard by 2024.[30]

OCBC launched the OCBC SME Sustainable Financing Framework to extend its sustainable financing offering, such as green loans, green letter of credit and green bankers' guarantee, to the SME clients involved in sustainable activities across nine green project categories that are also eligible under the GLP. OCBC does not require SMEs to have in place bespoke sustainable finance frameworks prior to sustainable financing to show that proceeds will be deployed in accordance with the GLP.[31]

OCBC collaborated with the Building and Construction Authority of Singapore (BCA) to provide easy access to green loans for building owners, developers and SMEs through the BCA's Building Energy Efficiency Assessment (BEEA) tool. The BEEA tool enables SME building owners and tenants to predict the energy performance of their buildings within minutes. [32] Projects that are deemed to be able to achieve a level of energy efficiency comparable to the certification standard of a BCA Green Mark 2021 Gold + building, will be eligible to obtain a green loan from OCBC Bank.[33]

Case in Point

In 2021, OCBC availed a market-first S$148 million green loan facility for Tong Eng Group, one of Singapore's leading private developers, to finance the development of a residential project.[34]

UOB has developed sustainable finance frameworks for circular economy, green building developers and owners, green and sustainable trade finance, smart city, and transition finance to guide organisations through a streamlined process to secure sustainable financing by lowering entry costs and reducing time to market.[35] In collaboration with PwC Singapore, UOB developed the Sustainability Compass, a simple online self-assessment tool which only takes minutes to complete. Upon completion, customised reports which include a step-by-step guide will be provided to the SMEs to help kick-start their sustainability journeys. In this report, possible sustainable financing solutions suitable for the sector will also be listed.[36]

Case in Point

Under its U-Drive, a green financing solution that aims to help drive the adoption of electric vehicles (EV) and green transportation in Singapore, UOB extended green facilities to Hong Seh Evolution (HSEV), the authorised distributor of commercial EVs from Dongfeng Sokon Automobile and dealer of BYD T3 electric vans in Singapore. The green facilities HSEV

[29] Information is true at time of publishing
[30] IBG Sustainable & Transition Finance Framework_Jun2020.pdf (dbs.com)
[31] OCBC-Bank-launches-framework-that-gives-singapore-smes-increased-access-to-sustainable-financing
[32] Sustainability – Building a sustainable future | OCBC Bank
[33] OCBC Bank extends $148 mil green loan facility to Tong Eng using BCA's new building energy efficiency assessment tool - Singapore Property News (edgeprop.sg)
[34] OCBC Bank extends green loan to first property development leveraging BCA's new building energy efficiency assessment tool
[35] UOB Sustainable Financing (uobgroup.com)
[36] Sustainability Compass | UOB Singapore (uobgroup.com)

received from UOB under the U-Drive solution has reportedly enabled them to have greater working capital flexibility in managing its commercial EV sales and inventory.[37]

HSBC offers a green loan of a minimum limit of US$350,000 to help SMEs meet sustainability goals.[38] Eligibility for the loan is assessed based on existing sustainability certification award and funds are used towards supporting green projects. To be eligible for the green loan by HSBC, organisations will need to submit its existing sustainability certification. Sustainability certification could be provided by the following organisations, though other certifications may be accepted on a case-by-case basis.

1. Singapore Environmental Council: Green Labelling Scheme, Eco-certifications
2. Building and Construction Authority (BCA): Green and Gracious Builder Award
3. Singapore Green Building Council: BCA Green Mark Scheme awarded with Gold + or Platinum
4. Green-e: Renewable Energy Certification

As organisations contemplate the issuance of green or sustainability-linked loans, they may require the assistance of external service providers, in addition to the financiers, to provide a range of advisory and assurance services. This includes but is not limited to services in relation to the development of sustainable financing frameworks and performing readiness assessment on the organisation's internal systems and processes for sustainable financing. For organisations in more advanced stages of originating sustainable financing instruments, external service providers would also come in to provide pre-origination verification or assurance services (see Step 5).

SGX Sustainable Fixed Income Initiative[39]

As part of the efforts to support the development of a robust sustainable finance ecosystem, SGX launched the SGX Sustainable Fixed Income initiative.

Wholesale and retail fixed income securities listed on SGX-ST can be recognised under the SGX Sustainable Fixed Income initiative if they meet the following criteria at issuance: (a) the fixed income securities are aligned with recognised green, social or sustainability standards for fixed income securities ("Recognised Standards");[40] (b) an external reviewer has confirmed that the fixed income securities are aligned with the Recognised Standards. The external reviewer should be a reputable firm with an established track record of providing similar reviews; and (c) the reports setting out the fixed income securities' alignment with the Recognised Standards are publicly available.

To maintain recognition under the SGX Sustainable Fixed Income initiative, issuers must publish any post-issuance reports (e.g., ongoing use of proceeds reporting) required under the applicable Recognised Standard, as well as information on any material developments which may affect their alignment with the Recognised Standards.

[37] UOB gears up green financing with U-Drive, an integrated value chain solution for the electric vehicle ecosystem (uobgroup.com)
[38] https://www.business.hsbc.com.sg/en-sg/business-banking/green-solutions-sme
[39] https://www.sgx.com/fixed-income/sustainable-fixed-income
[40] Recognised standards include Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Climate Bonds Standard, ASEAN Green Bond Standards, ASEAN Social Bond Standards, ASEAN Sustainability Bond Standards, EU Green Bond Standard and China Green Bond Principles (https://api2.sgx.com/sites/default/files/2022-11/Brochure%20-%20Sustainable%20Fixed%20Income%20initiative.pdf)

Issuers can use the recognition to demonstrate their commitment to the Recognised Standards, and to raise their visibility and profile with investors that are interested in sustainable fixed income.

Step 4: Consider Available Grant Schemes

To promote the adoption of internationally accepted green finance principles and framework, MAS is currently offering the Sustainable Bond Grant Scheme and the Green and Sustainability-Linked Loans Grant Scheme.

Sustainable Bond Grant Scheme (SBGS)[41]

MAS' SBGS offsets up to S$100,000 of additional expenses for pre-issuance and post-issuance external reviews of eligible green, social, sustainability and sustainability-linked bonds and promotes the adoption of internationally accepted green finance principles and framework. The grant is valid till 31 May 2023. Interested companies can submit their application to MAS.

The details of the scheme are as follows:

Grant Criteria	Details
Qualifying issuer	First time and repeat green, social, sustainability and sustainability-linked bonds. Issuers may apply for the grant multiple times.
Qualifying issuance	• Bonds of any currency with a pre-issuance external review or rating done to demonstrate alignment with any internationally-recognised green, social, sustainability and sustainability-linked principles or standards. • Green, social, sustainability or sustainability-linked bond issued and listed in Singapore. For sustainability-linked bonds, there must be post-issuance external review or reporting done annually for the first 3 years or up till the tenure of the bond, whichever is earlier. • Minimum size of $200 million or a bond programme size of at least $200 million with an initial issuance of at least $20 million. • Minimum tenure of 1 year. • Pre-issuance external review or rating and post-issuance external review or reporting work performed by external reviewers in Singapore. • Part of the sustainability advisory and assessment work performed by financial institutions in Singapore.
Eligible expense	Costs incurred in respect of the independent external review or rating done based on any internationally-recognised green/social/sustainability bond principles or framework. • Pre-issuance external review or rating done which demonstrated alignment with any internationally-recognised green, social, sustainability and sustainability-linked bond principles or standards. • Post-issuance external review or reporting for allocation and reporting done annually for the first 3 years or up till the tenure of the bond, whichever is earlier.
Per-issuance cap	Cap of $100,000 or 100% of the eligible expense per qualifying issuance.

Source: MAS, Sustainable Bond Grant Scheme

Green and Sustainability-Linked Loan Grant Scheme (GSLS)[42]

There are 2 tracks available under the GSLS which ends on 31 December 2023. Track A, Green & Sustainability-Linked Loans, is aimed at corporates and Track B, Green & Sustainability-Linked Frameworks, targets financial institutions.

Under Track A, GSLS will enhance corporates' ability to obtain green and sustainability-linked loans by defraying the expenses of engaging independent service providers to validate the green and sustainability credentials of the loan. GSLS can help to cover up to S$100,000 per

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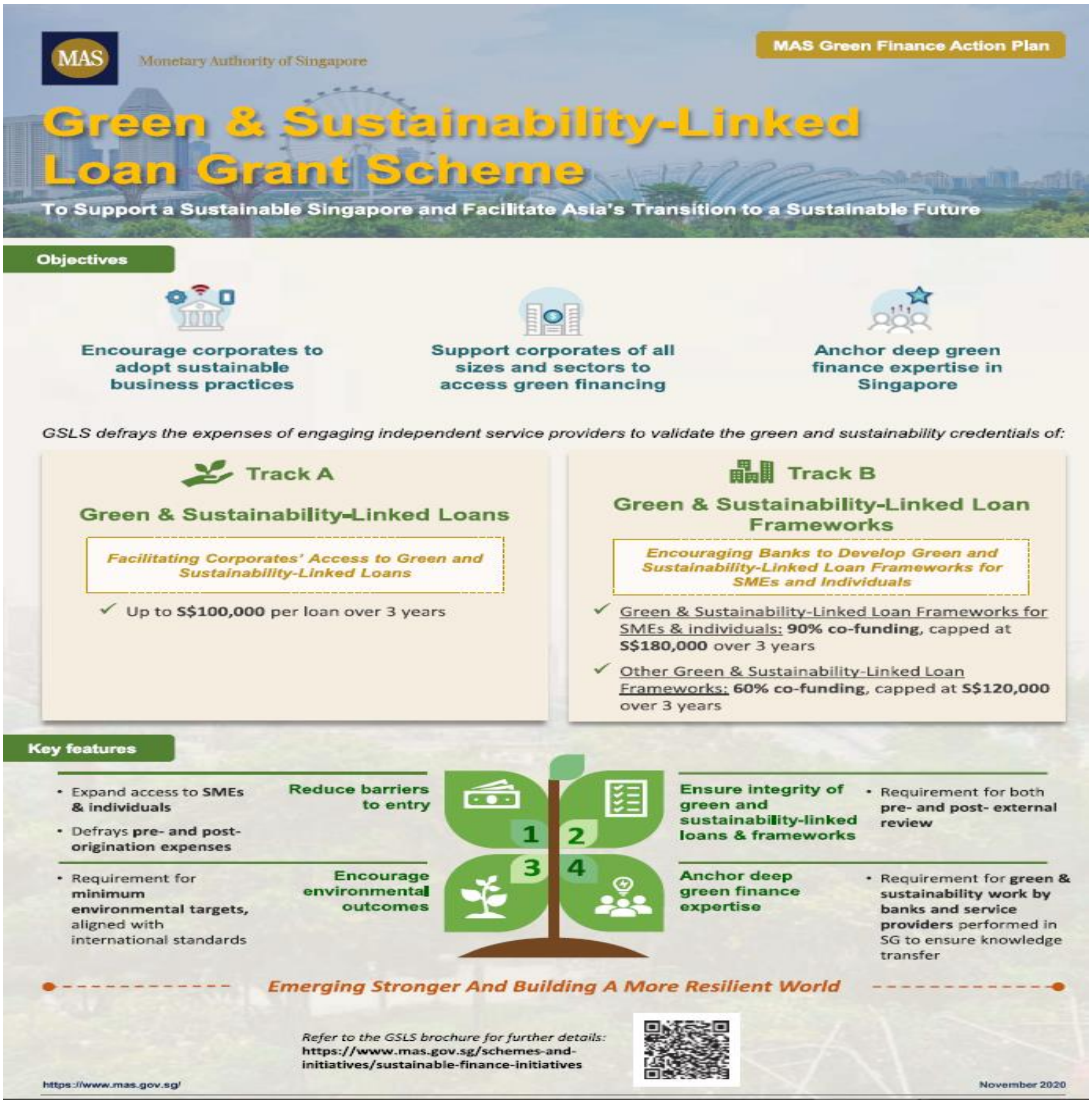
[41] Sustainable Bond Grant Scheme (mas.gov.sg)
[42] https://www.mas.gov.sg/schemes-and-initiatives/green-and-sustainability-linked-loans-grant

loan for the cost of engaging sustainability service advisors to develop a green loan framework, set SPTs related to the loans and obtain external review. At the post-issuance stage, companies must obtain another external review and report on the impact of the proceeds on the SPTs or projects.

Track B of the GSLS encourages banks to develop frameworks for green and sustainability-linked loans. The grant will cover expenses incurred by banks to engage independent sustainability assessment and advisory service providers to develop frameworks, obtain external reviews, and report on the allocated proceeds of loans which originated under the framework. MAS will defray up to 60% of these expenses for such green and sustainability-linked loan frameworks.

MAS will also defray up to 90% of the expenses incurred by banks to develop frameworks specifically targeted at SMEs and individuals. This will further encourage banks to provide greater support to SMEs and individuals to integrate sustainability considerations in their financing decisions.



Source: https://www.mas.gov.sg/-/media/mas/news/media-releases/2020/gsls-infographic.pdf

Enterprise Financing Scheme-Green ("EFS-Green") by Enterprise Singapore [43]

In addition to the grant schemes by MAS, eligible local enterprises in the qualifying green sectors and activities can gain better access to green financing through the Enterprise Financing Scheme-Green (EFS-Green) by Enterprise Singapore. EFS-Green is open for applications until 31 March 2024. All applications must reach MAS and be approved by a partner financial institution by 31 March 2024.

EFS-Green is aligned to the Singapore Green Plan 2030, which identifies a focus on helping local enterprises develop capabilities, build track-record and capture growth opportunities within the green economy. Under this scheme, Enterprise Singapore will provide 70% risk-share to catalyse the lending from partner financial institutions. These partners include DBS, HSBC, OCBC, UOB and CIMB Bank Berhad, Singapore Branch. These eligible partners have developed and obtained approval from MAS-recognised second party opinion provider on their Green and Sustainable Financing Frameworks for enterprises.

To be eligible under the EFS-Green, the company must:

1. Be a business entity (ACRA registered Sole Proprietorship, Partnership, Limited Liability Partnerships and Companies are eligible to apply for the scheme. Approval of the loan is subject to the partner FI's assessment) that is registered and physically present in Singapore,
2. Have at least 30% local equity held directly or indirectly by Singaporean(s) and/or Singapore PR(s), determined by the ultimate individual ownership,
3. Have Group Annual Sales Turnover of not more than S$500 million, and
4. Meet the criteria in both Qualifying Green Sectors & Activities[44] and Qualifying Borrower Types[45] for EFS-Green.

Loan details are shown in the exhibit below.

[43] Green | Overview | Enterprise Singapore (enterprisesg.gov.sg)
[44] Enterprise Financing Scheme – Green (EFS-Green) – FAQ (enterprisesg.gov.sg); See Table 1: Qualifying Green Sectors and Activities
[45] Enterprise Financing Scheme – Green (EFS-Green) – FAQ (enterprisesg.gov.sg); See Table 2: Qualifying Borrower Types

Loan Type	Supportable Areas	Maximum Loan Quantum / borrower*	Maximum Repayment Period
Developmental Capital	Expenses related to green initiatives • New product development • Technology development expenses • Consultation & certification fees	S$3 million	Up to 5 years
Fixed Assets Loan	• Purchase of equipment and machinery related to green initiatives • Construction of factories or purchase of land related to green initiatives	S$30 million	Up to 15 years
Trade Loan	Trade financing for green and sustainable products, inventory and raw materials	S$10 million	Up to 1 years
Project Loan	Finance the fulfilment of overseas and domestic green projects	S$50 million	Up to 20 years
Venture Debt Loan	Finance the growth of innovative enterprises with green initiatives using Venture Debt & Warrants	S$8 million	Up to 5 years
Mergers & Acquisition Loan	Finance the mergers and acquisition of target enterprises related to green initiatives	S$50 million	Up to 5 years

Note: Total overall borrower group[1] limit exposure is S$50 million for EFS-Green and EFS.

Source: Enterprise Singapore, EFS Green

Step 5: [Specific to green loans/SLLs] Pre- and Post-Origination Requirements and Procedures

Pre- Issuance of Green Loans and SLLs

As appropriate, borrowers of green loans must obtain an external review, such as validating that appropriate governance and systems are in place, and demonstrate the loan is aligned with internationally recognised green loan principles pre-issuance. For SLLs, external review ought to be undertaken to demonstrate alignment with the internationally recognised SLLP and that the SPTs contribute to the environmental objectives of the SLLP.

Post-Issuance of Green Loans and SLLs

Post-issuance, lenders of green loans will require assurance that their funds have been allocated accordingly to commitments in the prospectus. Hence, borrowers are expected to report on the allocation of the loan proceeds annually. The reporting should include a list of green projects to which the green loan proceeds have been allocated to, brief description of the projects, amounts allocated and their expected impact. Borrowers of SLL should obtain an external review, at least annually, to verify the attainment of the SPTs as these are likely to have an impact on the terms of the loans. Borrowers can seek external reviews in the form of limited or reasonable assurance. These reviews should be conducted by independent and qualified external reviewers with relevant expertise, such as an auditor, environmental consultant and/or independent rating agencies.

To qualify for the GSLS by MAS, more than 50% of gross revenue from the loan must be attributable to the bank in Singapore, which should be a Financial Sector Incentive (FSI) recipient. In addition, more than 50% of the gross revenue from the sustainability advisory and assessment services must be attributable to Singapore-based service providers.

Businesses looking to incorporate disclosures on green and sustainable finance in their sustainability reports (or other corporate reports) can refer to Appendix B for disclosure examples.

Conclusion

As governments, investors, financial institutions and individuals commit more resources to a sustainable future, it is imperative that businesses embark on their own sustainability journeys.

SMEs in Singapore can leverage on the various government grants support and expanded green financing options for sustainable growth and create long-term success for the business.

Sustainability is a journey and not a destination. As Mr Saswira Ismail, Managing Director and Head of Enterprise Banking Industries and Global Commercial Banking, OCBC, shared, businesses must future proof their businesses and this involves taking small steps and progressively scaling up on sustainability goals. Green and sustainable finance could just be the accelerator for companies in their transition to a low carbon economy.

Appendix A: Eligible Green Projects Categories

The GBP/GLP highlighted the following eligible Green Projects categories, listed in no specific order, include, but are not limited to:

S/N	Eligible Green Projects Category	Notes
1	**Renewable energy**	Including production, transmission, appliances and products
2	**Energy efficiency**	Such as new and refurbished buildings, energy storage, district heating, smart grids, appliances and products
3	**Pollution prevention and control**	Such as reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy
4	**Environmentally sustainable management of living natural resources and land use**	Including environmentally sustainable agriculture, environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture, environmentally sustainable forestry, including afforestation and reforestation, and preservation or restoration of natural landscapes
5	**Terrestrial and aquatic biodiversity conservation**	Including the protection of coastal, marine and watershed environments
6	**Clean transportation**	Such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions
7	**Sustainable water and wastewater management**	Includes sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation
8	**Climate change adaptation**	Includes information support systems, such as climate observation and early warning systems
9	**Eco-efficient and/ or circular economy adapted products, production technologies and processes**	Development and introduction of environmentally sustainable products, with an eco-label or environmental certification, resource-efficient packaging and distribution
10	**Green buildings**	Green buildings which meet regional, national or internationally recognised standards or certifications

Source: https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf

Appendix B: Excerpts of Disclosure Examples

- **Hongkong Land, Green Financing Framework, July 2021**

  Microsoft Word - HKL Green Financing Framework_July 2021 (Final).docx (windows.net)

- **Ascott Residence Trust, Sustainability-Linked Finance Framework, February 2022**

  ART_ Sustainability-Linked-Finance-Framework_vf.pdf (capitalandascotttrust.com)

- **Burberry Annual Report 2021/22, Sustainability Bond Use of Proceeds Report**

  Burberry 2021/22 AR (burberryplc.com), see Page 96-97 of the Annual Report

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- Mr Warren Saw, Executive Director, Business Head, Enterprise Banking Industries, Global Commercial Banking, OCBC
- Ms Iris Ng, Managing Director, Middle Market, Global Commercial Banking, OCBC
- Mr Lee Bing Yi, Director, ESG and Financial Services, PwC Singapore
- Monetary Authority of Singapore’s Green Finance Industry Taskforce
- Singapore Exchange Regulation
- Every company, including those with disclosures, featured in this guide