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Courting private investment will be key to plugging the finance gap to fulfil the need for climate resilient infrastructure in Asia. But Asia is not taking climate risks into sufficient account, according to a panel of experts speaking at the CNA Leadership Summit on Thursday (22 April) in Singapore.

Asia is on the front line of climate change with six of the ten largest economic loss events in 2019 caused by extreme precipitation, according to insurance provider Aon. Asia Pacific needs USD$1.7 trillion annually for infrastructure, Bambang Susantono, vice president, knowledge management and sustainable development at the Asian Development Bank (ADB) told the panel.

Increasingly, asset owners and managers are placing emphasis on environmental, social and governance considerations in their investment agendas. They are generally looking at how the businesses they invest in are going to insulate themselves against risks, such as excess carbon emissions. Furthermore, they want greater ESG disclosures.

However, the integration and reporting of ESG remains patchy, particularly in Asia. This could be to the detriment of companies based here looking for capital.

“If you look at our region, we still have a lot more work to do,” said Dave Fernandez, director, Sim Kee Boon Institute for Financial Economics, SMU and co-director at the Singapore Green Finance Centre. “We have to create a situation where the damage that you were doing by doing certain activities, the focus, clearly being on greenhouse gas emissions needs to have a price above zero,” he said.

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China and Japan appear to be ahead of their Asian peers in terms of understanding the need to report their environmental impact and have high disclosure rates, according to the CDP, an non-government organisation supporting environmental disclosure. Elsewhere in Asia is more sporadic.

"The question here in Asia is - are the companies ready? Are we going to miss that wave of global finance that's flowing to the companies that have said, we're going to embrace this ahead of any government regulations that come in? I think that's the real challenge, because the money is going to be coming whether or not Asian companies are ready," said Fernandez.

ESG reporting by businesses in the region has increased in recent years, reckons the CFA institute, a non-profit for finance professionals, with an uptick in demand for high quality, comparable and relevant ESG information. The CFA said in its 2019 report that regulators and stock exchanges are driving changes in reporting but "much work remains to be done in the region to raise the overall quality and utility of ESG disclosures".

ESG integration is also being driven by risk management, but companies still risk being in breach of the climate limits as set out by the Paris Agreement due to the limited understanding of what ESG issues are and a lack of comparable data.

Without knowing what the metrics for ESG are, it will be difficult for companies to comply accordingly leaving them exposed to compliance risk later down the line, said Radish Singh, financial crime compliance leader at Deloitte.

"Part of sustainability and governance is also to ensure that investors as well as the financial institutions are looking at things [like the value chain] at a high level of detail. But the issue with that is, do we have enough information and data to react to that?" said Singh.

Standardised reporting mechanisms that could streamline data-collection and increase transparency and compliance would help. The responsibility about forming clear frameworks and taking responsibility for information and the disclosures made around ESG, sustainability and environmental crime should lie at board level, charged Singh.

Compliance is also an issue. Although corporate disclosure is clearly on the rise, and strongly encouraged, it is not universal. "Encouraged means that is is not mandatory. There should be certain manadatory obligations that are created in order for us to take this seriously," said Singh. "If there is no enforcement, there are no teeth."