

DREW & NAPIER

Key Developments in relation to Sustainable Finance and the Lending Market in Singapore – Q4 2024

17 January 2025

LEGAL UPDATE



In this Update

The fourth quarter of 2024 and start of 2025 saw several developments that may impact the Singapore lending market.

In this update, May Ng and Elton Ching highlight developments relating to (i) the Enterprise Financing Scheme, (ii) the Multi-Jurisdiction Common Ground Taxonomy, (iii) the Financing Asia's Transition Partnership and (iv) the launch of green loan provisions by the Loan Market Association.

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ENTERPRISE FINANCING SCHEME

Enterprise Financing Scheme – Foreign-based Financial Institutions ("EFS-FFI")

In a media release dated 11 October 2024, Enterprise Singapore ("**EnterpriseSG**") and Amsterdam-headquartered Credit Europe Bank ("**CEB**") announced the signing of an agreement to enhance access to financing for Singapore enterprises venturing overseas.[1] The agreement was signed as part of the EFS-FFI and is the first partnership between EnterpriseSG and a foreign-based financial institution.

The EFS-FFI provides risk-sharing of up to 50% to support lending to Singapore enterprises from partner foreign-based financial institutions, thus enabling them to tap new financing sources when expanding overseas. It covers various financing facilities, including working capital, fixed asset, trade, project and mergers & acquisitions.

The partnership between EnterpriseSG and CEB will initially focus on international trade and commodity financing, with a view to be subsequently expanded to other products.

Enterprise Financing Scheme – Multilateral Development Banks ("EFS-MDB")

In a media release dated 15 October 2024, EnterpriseSG and the African Export-Import Bank ("**Afreximbank**") announced the signing of an agreement to enhance access to financing for Singapore enterprises seeking to venture to Africa.[2] This marks the first partnership between EnterpriseSG and a multilateral development bank as part of the EFS-MDB. This partnership will enable Singapore enterprises to tap new sources of financing from one of the key lenders in Africa when expanding to the countries in the continent.

The EFS-MDB supports access to financing for Singapore enterprises expanding globally. Through the EFS-MDB, EnterpriseSG provides risk-sharing of up to 50% to support lending to Singapore enterprises from partner multilateral development banks. The partnership will cover a range of financing needs, including working capital, fixed assets, trade, project and mergers & acquisition.

Further details on the EFS-FFI / MDB and the eligibility requirements can be found here.

MULTI-JURISDICTION COMMON GROUND TAXONOMY ("M-CGT")

We had shared in our earlier update ("Key Developments in relation to Green Finance and the Lending Market in Singapore – Q2 2023") that the Monetary Authority of Singapore ("**MAS**") and the People's Bank of China ("**PBC**") had announced the establishment of the China-Singapore Green Finance Taskforce ("**GFTF**") to deepen bilateral cooperation in green and transition finance between Singapore and China.

On 11 November 2024, as part of the new green finance and capital markets initiatives to strengthen financial collaboration with China, MAS announced that the GFTF has been working to expand the Common Ground Taxonomy ("**CGT**") under the International Platform on Sustainable Finance ("**IPSF**") to include the Singapore-Asia Taxonomy for Sustainable Finance.[3]

The IPSF presented the M-CGT on 14 November 2024, which is a comparison of the sustainable finance taxonomies of China, the EU and Singapore.[4] Developed by the PBC, the European Union Directorate-General for Financial Stability, Financial Services and Capital Markets Union and MAS, the M-CGT builds on the EU-China CGT, a joint initiative under the IPSF by the European Commission and the PBC in 2020 to enhance the interoperability of the EU and China's taxonomies.

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[1] EnterpriseSG Press Release: https://www.enterprisesg.gov.sg/-/media/esg/files/media-centre/media-releases/2024/october/mr03924_enterprise-singapore-partners-credit-europe-bank-to-help-singapore-companies-access-financing-overseas-for-expansion-efforts.pdf
[2] EnterpriseSG Press Release: https://www.enterprisesg.gov.sg/-/media/esg/files/media-centre/media-releases/2024/october/mr04124_enterprise-singapore-partners-african-export-import-bank-to-catalyse-financing-for-singapore-companies.pdf
[3] MAS Press Release: https://www.mas.gov.sg/news/media-releases/2024/mas-announces-green-finance-and-capital-markets-initiatives-with-china
[4] MAS Press Release: https://www.mas.gov.sg/news/media-releases/2024/multi-jurisdiction-common-ground-taxonomy

Use-cases of the M-CGT

The M-CGT serves as a technical reference document which market participants can use to assess what could be considered green across China, the EU and Singapore. While not legally binding, green bonds and funds that align with the M-CGT criteria can be considered by cross-border investors whose markets reference the taxonomies which are mapped to M-CGT, subject to applicable laws and regulations.

It will also serve as a reference for jurisdictions that are developing their domestic green taxonomies and has been designed to accommodate the comparison of more jurisdictions' taxonomies in the future. This will increase the number of taxonomies that are interoperable and facilitate cross-border green capital flows.

Methodology and Key Findings

The scope of M-CGT covers green activities across China, the EU and Singapore taxonomies and their corresponding substantial contribution criteria that meet the climate change mitigation objective. The M-CGT analysed and mapped a total of 110 activities across eight focus sectors. The mapping exercise helped identify eligible activities that should be included in the M-CGT, and assigned scenarios based on the extent of commonalities found between these activities within the EU, China, and Singapore taxonomies. The M-CGT also facilitates the comparison of activities which do not have interoperable metrics, allowing more activities to be included and analysed in the M-CGT.

(a) For activities with the same or interoperable metrics (e.g. activities in the energy sector where life-cycle GHG emissions is a common metric), the level of stringency of the taxonomies' criteria was assessed. The most stringent threshold was adopted for the M-CGT in these scenarios, such that an activity that meets the M-CGT criteria would be credibly accepted by investors in all the jurisdictions in scope.

(b) For activities with different metrics (e.g. activities which rely on local certification schemes, standards or regulations), commonalities in the requirements of the taxonomies' criteria were identified.

Based on the MAS press release, the findings from the mapping exercise revealed that:[5]

(a) Around 60% of common activities extracted from the three taxonomies could be clearly defined with the most stringent criteria, mainly across the manufacturing, transportation, water and waste sectors.

(b) The criteria for 5% of the common activities, mainly in the electricity generation and construction sectors, was aligned across the taxonomies.

(c) The criteria for around 33% of common activities was not directly comparable across the taxonomies. In such cases, to be aligned with the M-CGT, an activity must meet at least one of the taxonomies' criteria. This was seen more commonly in sectors in which local regulations, standards or certifications are conventionally referenced, such as the construction and agriculture and forestry sectors.

It is stated in the same MAS press release that these findings suggest that there is some degree of comparability of green activities across taxonomies of the three jurisdictions. This indicates that investors and financial institutions across such jurisdictions can consider green finance instruments that reference the M-CGT, subject to the applicable laws and regulations of each jurisdiction.

Further details on the M-CGT can be found here.

DEVELOPMENTS IN RELATION TO THE FINANCING ASIA'S TRANSITION PARTNERHSIP ("FAST-P")

FAST-P is a blended finance initiative launched by MAS at the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change ("**UNFCCC**") that aims to mobilise up to US$5 billion from public, private, and philanthropic partners to finance transition opportunities in Southeast Asia.

[5] MAS Press Release: https://www.mas.gov.sg/news/media-releases/2024/multi-jurisdiction-common-ground-taxonomy

29th Conference of the Parties ("COP29")

At the COP29 to the UNFCCC:

(a) The Singapore Government announced that it will pledge up to US$500 million as concessional capital, to match dollar-for-dollar, concessional capital from other partners, including other governments, multilateral development finance institutions and philanthropies to support the FAST-P.[6] This combined pool of concessional capital will be used to crowd in commercial capital and other sources of finance to support Asia's green transition, and raise up to US$5 billion to support Asia's green and transition financing needs.

(b) BlackRock, MAS, International Finance Corporation, Mitsubishi UFJ Financial Group, Nippon Export and Investment Insurance and AIA Group signed a Statement of Intent ("**SOI**") to collaborate on a project to develop an Industrial Transformation infrastructure debt programme, under the FAST-P initiative.[7]

The Industrial Transformation programme will explore financing solutions for investors to access decarbonisation projects mainly focusing on Southeast Asia, enabling countries, companies, investors, and philanthropies to pursue their decarbonisation objectives. The Industrial Transformation programme will also seek to catalyse additional concessional and commercial capital to support these projects.

Under the SOI, the parties will explore mutually beneficial opportunities to provide debt financing to private-sector borrowers seeking to decarbonise their businesses, including projects in the following sectors (i) in hard to abate sectors, (ii) technology solutions for the low-carbon transformation, and (iii) industrial opportunities.

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[6] MAS Press Release: https://www.mas.gov.sg/news/media-releases/2024/singapore-commits-us$500-million-in-matching-concessional-funding-to-support-decarbonisation-in-asia

[7] MAS Press Release: https://www.mas.gov.sg/news/media-releases/2024/blackrock-mas-spearhead-collaboration-to-unlock-investment-opportunities-in-decarbonisation-in-asia

Collaboration between Australia and Singapore to Support Sustainable Infrastructure and Decarbonisation in Southeast Asia

In a press release dated 3 December 2024, MAS announced that the Australian Government has approved a US$50 million investment into the Green Investments partnership under the FAST-P initiative.[8] Australia's investment, administered by Export Finance Australia, will help facilitate investment opportunities in clean energy and sustainable infrastructure projects across Southeast Asia and create commercial opportunities for Australian exporters and financial institutions. This is the first investment under the Australian Government's A$2 billion Southeast Asia Investment Financing Facility.

LAUNCH OF GREEN LOAN PROVISIONS BY THE LOAN MARKET ASSOCIATION (LMA")

On 9 January 2025, the LMA published the LMA Green Loan Terms ("**LMA GLT**") which aim to facilitate clarity and consistency in structuring and negotiating green loans, ensuring alignment with recognised market standards, and look to complement the relevant transaction term sheet. The LMA GLT are based on the LMA's Draft Provisions for Green Loans ("**LMA Draft Provisions**") published on 7 November 2024.

The LMA Draft Provisions are a set of template provisions which can be adapted for insertion into LMA's recommended form facility agreements where the relevant facility/loan is intended as a "green facility/loan". The LMA Draft Provisions provide a starting point for green loans based on market practice and will need to be negotiated and tailored to suit the specifics of each transaction. LMA indicated that the LMA GLT and the LMA Draft Provisions will be reviewed on a regular basis to accommodate the development and growth of the green loan market.

Earlier in 2024, the Asia Pacific Loan Market Association had published its own model green loan provisions which are intended to provide a starting point for green loans in the Asia Pacific region.

[8] MAS Press Release: https://www.mas.gov.sg/news/media-releases/2024/australia-singapore-collaborate-to-support-sustainable-infrastructure-and-decarbonisation-in-sea

CONCLUSION

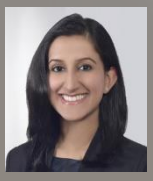
Drew & Napier LLC looks forward to continuing to support its clients as they navigate the above developments as well as new opportunities and challenges that arise in 2025.

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Authors:

May Ng (Director)
Elton Ching (Associate)

For questions or comments, please contact:



Renu Menon
Co-Head, Banking & Finance
Director, Corporate & Finance
T: +65 6531 2253
E: renu.menon@drewnapier.com



Pauline Chong
Co-Head, Banking & Finance
Director, Corporate & Finance
T: +65 6531 2796
E: pauline.chong@drewnapier.com



May Ng
Director, Corporate & Finance
Director, Banking & Finance
T: +65 6531 2258
E: may.ng@drewnapier.com

Drew & Napier LLC

10 Collyer Quay
#10-01 Ocean Financial Centre
Singapore 049315

www.drewnapier.com

T : +65 6535 0733
T : +65 9726 0573 (After Hours)
E : mail@drewnapier.com

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