Policy Recommendations on ESG and Sustainable Finance in South Korea

“ESG is Critical for South Korea’s National Competitiveness and the Next Generation’s Right for a Future”

Recommendations by Impact for Breakfast Seoul ESG Working Group

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Executive Summary

South Korea is transitioning to the era of living with Covid under a new South Korean administration, with a moderate growth expected in 2022 led by semiconductors exports. While some larger firms are doing relatively well, there is a persistent perception that many in South Korea are being left behind, including non-export sectors, young people with less prospects for upward mobility, lower productivity of small and medium businesses, as well as inadequate safety nets for the elderly and other vulnerable groups. In the environment area, while many policy announcements have been made, Koreans continue to live with unhealthy air and greenhouse emissions per capita well below the OECD average. The recent rise of Environmental, Social, and Governance (ESG) standards in South Korea could be a once-in-a-generation opportunity to address social and environmental challenges, but "greenwashing" (using ESG more for marketing rather than real social impact) and lack of regulatory clarity remain as key barriers.

Interest in ESG has increased exponentially in South Korea in recent years, with net asset value of ESG investment funds moving from approximately USD 200-300 million in 2020 to about USD 7 billion by early 2022. Major Korean companies are trying to assess the value of ESG—from its public relations value, minimizing risk and costs, along with its environmental impact (which so far has been more on the E of ESG and less on Social and Governance). Public interest in ESG has followed, with South Korean internet users in 2021 searching for ESG three times more often than CSR (corporate social responsibility).

Globally, there has been a dramatic shift to mobilize private finance for developmental, social, and environmental impact. A key driver has been a new generation of consumers and owners of capital, as the Millennial generation begins to inherit the wealth of the Baby Boomers which is expected to reach USD 68 trillion by 2030. There is, as well, a growing consensus that the 2030 United Nations Sustainable Development Goals cannot be reached without private-sector financing. Promoted first by Europe and North America, ESG and similar approaches to responsible investment have been catching on in Asia, including Singapore, Japan, and Hong Kong. Around the world, strategies for responsible investment have been contributing to economic and business growth while solving social problems. These strategies range from exclusionary screening (e.g., not investing in polluting firms), to thematic investments (e.g., investments related to climate change or supporting specific groups such as women, minorities, or refugees), to direct-impact investments by private equity or venture capital (e.g., fintech solutions in poor, last mile solutions to rural areas in developing countries). How these strategies can be adapted to the South Korean context remains to be seen.

[1] ESG (environmental, social, and governance) criteria are a set of standards for a company's operations used to screen potential investments by socially conscious investors.

The government has just begun to play catch-up to these rapidly evolving ESG trends. Different voices in society are calling for greater public leadership and policy clarity. To address this moment of change and opportunity, a group of leaders from the private sector, academia, the government, and civil society in South Korea assembled from May to December 2021 to assess the state of ESG and develop policy recommendations for the next president of South Korea. These recommendations have the potential to link ESG and responsible investing to national competitiveness and social and environmental progress to benefit the next generation.

The main challenges in the ESG environment in South Korea involve regulatory clarity, especially with regard to information disclosure and measurement standards. As one of our participants put it, "ESG is great for a happy society and for people to sleep well, but ESG is making business leaders to lose sleep." High costs of compliance, conflicting signals, and excessive requirements are contributing factors, especially for small and medium enterprises (SMEs). Customized support and incentives to engage small businesses with ESG practices will be an important agenda item for policymakers and other stakeholders in Korean society.

This support for SMEs should be designed to strengthen, not undermine, markets. An important public policy challenge surrounding ESG is the potential risk for public-sector interventions such as tax incentives or direct public finance to distort markets. While there has not been a systematic study of Korea's policies in sustainable finance, a 2018 OECD study of Korea's public funding and other support to SMEs provides a helpful reference and a cautionary tale. The study concluded that current public programs to support SME financing actually lowered the productivity of recipient firms and increased the survival of less competitive firms. Policy quality, rather than funding quantity, seems to matter.

Our ESG report includes the following recommendations to the next government of South Korea :

1. **Develop a government ESG strategy, as part of the broader sustainable finance sector, to guide the private sector and civil society. Consider establishing a "control tower" to support the strategy.**
2. **Conduct an impact evaluation of Korea's sustainable finance policies.**
3. **Align investment tax credits or incentives with the strategic plan, including to support small and medium enterprises.**
4. **Take the lead in developing a sustainable finance taxonomy.**
5 **Establish regulatory guidance on compliance and disclosure standards.**
6. **Facilitate liquidity and exit for venture capital.**
7. **Promote ESG awareness.**
8. **Strengthen the role of the Central Bank in sustainable finance.**

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About the In Korea for Asia Series

In Korea for Asia publication series is a response to the most pressing challenges facing Korea today along with opportunities to fulfill its potential as a country and in service to Asia. The series addresses four categories of challenges facing South Korea: (a) social inclusion and economic inequality, (b) national security and international cooperation (including Korea-U.S. relations), (c) economic growth and competitiveness, and (d) demographics and the next generation. As Korea improves in these areas, it can become a better neighbor and partner to work with and serve other countries in the region.

The Asia Foundation has been in Korea for over 65 years assisting the country's development transition. As a loyal friend, the Foundation was there during the most important times in Korea's modern history. Through the decades, friends and partners in Korea and across Asia have turned to The Asia Foundation for hope and friendship in difficult times. By building upon such support, South Korea has grown to become one of the most successful stories in Asia. In less than a generation, South Korea has gone from a war-torn country to a leader in technological innovation and global brands. With such a wide range of experiences, the country has many valuable lessons and experiences to share with developing countries and neighbors. But within South Korea, there is a realization of deep problems at home.

In the third decade of twenty-first century, our role as connectors and positive change agents must adapt to an era of technological innovation, rapid geopolitical changes, as well as new development cooperation models in Korea and the rest of Asia. Our increasing partnership with the private sector is reflected in our work in entrepreneurship development, inclusive business and finance models, in order to benefit women, vulnerable groups such as refugees and the next generation.

Our report - Policy Recommendations on ESG and Sustainable Finance in South Korea - reflects this commitment towards a more prosperous and sustainable Korea to benefit the next generation. The rapid growth of Korean ESG in the past year is a once in lifetime opportunity to transform the country's economic and social landscape, not only for Korea, but to benefit the rest of Asia. This is by no means is guaranteed. This report describes the promises and challenges of ESG with Korean characteristics. We invite you to join us to work for a better tomorrow in Korea for Asia.

Kwang W. Kim, Korea Country Representative, The Asia Foundation
Seoul, July 2022

Acknowledgments

This report has been a collective effort by many who are dedicated to shaping a better Korean economy and society through a stronger ESG ecosystem. This group has been drawn by the possibilities and practical challenges of Korea's growing interest in ESG. This report and the ESG policy working group were co-chaired by Jinho Chung of The Wells Investment, one of South Korea's pioneers in impact investing, and by Jung-hun Cho, MP from the Transition Korea Party.

The Asia Foundation and Merry Year Social Company (MYSC) provided Secretariat support, including research and meeting facilitation. The Wells Investment provided venue support for the meetings and financial support such as the publishing cost of this report.

The working group included Lee Seok Hwang (Seoul National University), Shil-Il Kang (Merry Year Social Company), Thae Khwarg (S&L Partners), Kamala KC (S&L Partners), Hyoungjin Kim (Klover Partners), Jeong-tae Kim (Merry Year Social Company), Robert Kim (Caprock Capital), John Park (Barings Asset Management), Chris Raciti (ANZ Bank), and Jie Ae Sohn (Ewha Women's University). Additional comments were provided by Shaina Tan and her colleagues from ANZ Bank, and by the extended Impact for Breakfast (IFB) Seoul community, including Man-Yeon Choi (Blackrock Korea) and Yongmok Kim (Grace & Mercy Foundation).

The writing team for this report was led by Kwang Kim and James (Jaemyung) Lee, with additional support by Jihye Kim, all from The Asia Foundation, based on guidance and inputs from the ESG policy working group.

Acronyms

A4S	Accounting for Sustainability Project
ASEAN	Association of Southeast Asian Nations
AUM	Assets under management
BoK	Bank of Korea
CFE	Center for Free Enterprise
CSR	Corporate social responsibility
CSV	Corporate shared value
DJSI	Dow Jones Sustainability Indices
DART	Data analysis, retrieval, and transfer system
ECB	European Central Bank
ESAP	European Single Access Point
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
EU	European Union
EXIM	Import-Export Bank of Korea (also known as Korea EXIM or KEXIM)
FASB	Financial Accounting Standards Board
FIEA	Financial Instruments and Exchange Act
FKI	Federation of Korean Industries
FSA	Financial Services Agency

FSC	Financial Services Commission (Korea)
FOMEK	Federation of Middle Market Enterprises of Korea
GP	General partner
GRI	Global Reporting Initiative
GSG	Global Steering Group
HKEX	Stock Exchange of Hong Kong Limited
IFB	Impact for Breakfast
IIRC	International Integrated Reporting Council
IPO	Initial public offering
ISSB	International Sustainability Standards Board
JICA	Japan International Cooperation Agency
KCCI	Korean Chamber of Commerce and Industry
KDB	Korea Development Bank
K-ESG Index	Korean Environmental Social and Governance Index
KIS	Korea Investors Service
KLA	Korea Listed Companies Association
KOICA	Korea International Cooperation Agency
KONEX	Korea New Exchange
KOSDAQ	Korea Securities Dealers Automated Quotations
KOSPI	Korean Composite Stock Price Index
KRW	Korean Republic won
KRX	Korea Exchange
LP	Limited partner

MAS	Monetary Authority of Singapore
METI	Ministry of Economy, Trade, and Industry
MOE	Ministry of Environment
MOTIE	Ministry of Trade, Industry, and Energy
M&A	Mergers and acquisitions
MSCI	Morgan Stanley Capital International
MYSC	Merry Year Social Company
NGO	Nongovernmental organization
NPS	National Pension Service
ODA	Official development assistance
PE	Private equity
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goals (UN)
SGX	Singapore Exchange
SIB	Social impact bond
SME	Small and medium enterprise
SRI	Socially responsible investment
TCFD	Task Force on Climate-Related Financial Disclosure
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USD	United States dollar
VC	Venture capital
WEF	World Economic Forum

Introduction : Context and Background

This policy report is the result of ongoing discussions among investors, civil society, and government leaders under the Impact for Breakfast (IFB) Seoul network started in September 2020. These discussions culminated in a six-month working group in 2021 to develop policy recommendations for the South Korean government on key environmental, social, and governance (ESG) challenges and opportunities. The working group was chaired by Congressman Jung-hun Cho (Transition Korea Party) and President Jinho Chung (The Wells Investment). The Asia Foundation and Merry Year Social Company (MYSC) served as the Secretariat for the IFB Seoul policy working group.

By way of background, during our first IFB Seoul meeting, in September 2020, our members identified a preliminary set of priorities for Korea's sustainable-finance environment: [2]

- Mainstreaming sustainable finance in the rest of Korea's economy and society
- Explicitly addressing inequality and inclusion in Korean society and beyond
- Greater global and regional linkages, especially between Korea and other parts of Asia

Two research manuscripts commissioned by the Asia Foundation have provided inputs to the ongoing IFB Seoul dialogues: (1) Survey of Sustainable Finance in Korea, in cooperation with Ewha Woman's University, and (2) Start-up and Social Innovation Ecosystem in Korea, in cooperation with Hanyang University.

Other key themes and challenges for Korea that emerged from the IFB dialogue and The Asia Foundation research include:

- Strengthening networks of mainstream investors and impact investors (where IFB has been playing a role)
- Assessing the role of public funding in sustainable finance
- Domestic versus international focus, including alternative assets (private equity and venture capital)
- Insufficient data for ESG research, reporting, disclosure, and impact evaluation
- "Greenwashing" concerns around sustainable finance (i.e., deceptive claims about environmental benefits)

2 'By sustainable finance, we mean investment approaches that take into account both financial considerations and nonfinancial social and environmental considerations. These include a variety of asset classes and investment vehicles, such as public and private equity, venture capital, debt instruments such as bonds, and others. ESG is part of the broader sustainable finance approach to investments. Sustainable finance may also include thematic investments such as climate and gender, impact investment, and social impact bonds.

This report takes into account the dialogue and research efforts described above, which culminated in the policy working group of May to December 2021.

As a collective effort of members of Korean society, the key objective of the six-month IFB policy working group has been to identify and respond to main policy challenges and opportunities in mainstreaming sustainable finance in South Korea for the public good. This includes :

- Addressing inequality and inclusion in Korea and Asia through sustainable finance
- Strengthening Korea's sustainable finance ecosystem, particularly ESG and impact investment

About IFB Seoul

Impact for Breakfast is a global network with chapters in more than 16 cities. IFB Seoul was launched in September 2020 to strengthen the sustainable finance ecosystem in Korea, including by bringing investors and impact investors together. The Asia Foundation is the chapter manager for IFB Seoul, with The Wells Investment and MYSC as co-founding members.

About The Wells Investment

The Wells Investment is a venture capital and private equity firm with assets under management (AUM) of more than KRW 200 billion. It has been one of the early movers in South Korea concentrating on investments with a positive social and environmental impact. Focusing on healthcare, high technology, and consumer goods, The Wells Investment holds a portfolio of more than 65 companies.

About Representative Jung-hun Cho

Jung-hun Cho is a Member of the 21st National Assembly of South Korea, and is one of the cofounders of the Transition Korea Party. Before entering politics, he was the World Bank Group's Uzbekistan country representative and a professor at the Graduate School of International Studies at Ajou University.

About The Asia Foundation

The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Headquartered in San Francisco, the Foundation works through a network of offices in 18 Asian countries and in Washington, DC. As a loyal friend of Korea for over 65 years, the Foundation's Korea Office exists to serve Asia and support the dreams and aspirations of Koreans and Korea's role in Asia.

About MYSC

Merry Year Social Company is a for-profit organization that provides consulting services, business acceleration, and impact investments to create positive social and environmental outcomes. MYSC has worked with more than 50 consulting clients and manages an impact fund of KRW 30 billion, which it has invested in a total of 28 social ventures to date.

Working Group Members (in alphabetical order)

The working group includes a diverse selection of representatives from the private sector, the public sector, academia, and civil society NGOs.

Core group members

- Jung-hun Cho, National Assembly
- Jinho Chung, The Wells Investment
- Shin-Il Kang, Merry Year Social Company
- Thae Khwarg, S&L Partners
- Hyoung-jin Kim, Klover Partners
- Jeong-tae Kim, Merry Year Social Company
- Kwang Kim, The Asia Foundation
- John Park, Barings Asset Management Korea
- Jie-Ae Sohn, Ewha Women's University

Additional IFB working group participants

- Lee Seok Hwang, Seoul National University
- Robert Kim, Caprock Capital
- Chris Raciti, ANZ Bank

Invited guest speakers

- Kamala KC, S&L Partners, on the Japanese ESG case study
- Dong-soo Kim, Korea Productivity Center, on K-SDGs
- Chul-woo Moon, Sungkyunkwan University, on impact-weighted accounting

II. The Big Picture : Challenges and Opportunities

The Global Landscape

The past decade has seen a dramatic push around the world to mobilize private finance for social, environmental, and development purposes. In the global macro-environment, the United Nations Conference on Trade and Development (UNCTAD) has identified a financing gap of USD 2.5 trillion a year in funds necessary to achieve the Sustainable Development Goals (SDGs) agenda, a commitment to implement the 17 SDGs by 2030 (UNCTAD 2014: xi). This has been accompanied by a generational shift in consumer trends and capital allocation led by the Millennial generation. In the past two decades, companies have felt a growing demand, led by Millennials and Generation Z, for more socially and environmentally friendly products and services. The largest intergenerational wealth transfer in history is expected occur in the coming years, as Millennials are poised to inherit over USD 68 trillion from their Baby Boomer parents by 2030 (Forbes 2019). As a result, asset owners and managers (including family offices and institutional investors) have been responding to a growing demand for "responsible investment capital" that considers nonfinancial factors such as social and environmental impacts in investment decision-making.

The Korean Landscape in 2021-2022

Despite these trends, South Korean and East Asian investors have until recently trailed their global peers, reporting socially responsible investments of less than 1 percent of total assets, compared to more than 50 percent in Europe and Australia, and 38 percent in Canada (GSIA 2020). However, this has begun to change rapidly in the last two years. By 2022, responsible investments in South Korea had grown to about USD 7 billion from just USD 200-300 million the year before (NH Investment), and it continues to rise.

Public interest in ESG and sustainability issues rose dramatically in 2021. Google Trend data analyzed by The Asia Foundation shows that the number of keyword search online for "ESG" spiked during 2020-2021, surpassing searches for the traditional sustainability concepts such as "CSR" (corporate social responsibility) by a factor of three and "CSV" (corporate shared value) by a factor of six.

At the time of this writing, South Korea is entering 2022 with the prospect of strong economic growth, led by exports of semiconductors, despite living with Covid. But while some larger firms are doing relatively well, there is a persistent perception that many in South Korea are being left behind, including non-export sectors, young people with less upward mobility, small and medium enterprises (SMEs), migrants, and other vulnerable groups. In the environmental arena, despite many policy pronouncements, Korea continues to live with unhealthy air and criticisms that its climate aspirations are falling short. ESG could be a once-in-a-generation opportunity to address these social and environmental challenges.

ESG matters to South Korea's competitiveness, as it ranked 13th in the World Economic Forum's 2019 global competitiveness index (the latest available). While Korea maintains its traditional lead in public finances, technological innovation, and infrastructure, it still lags in financial development and the quality of social dialogue. Strengthening Korea's ESG and sustainable finance ecosystem would help the country attract more investment at a time when responsible capital is a growing global trend. But global cost positioning will be an important consideration. For example, Korea's CO2 emissions are high—ninth in the world—but the push for net zero emissions would hurt Korea's cost competitiveness far more than, say, the EU's, because Korea's economy relies more heavily on manufacturing.[3] Making the ESG transition without damaging Korea's cost competitiveness will be an important policy challenge.

At the same time, to promote a society with shared prosperity, ESG could employ investment strategies that go beyond negative screening and divesting bad assets. Instead, ESG could be a driving force to engage a variety of stakeholders—companies, community organizations, NGOs, government—to broaden social opportunities and practical environmental impact. The financial size involved (nationally and internationally) and the current receptivity in Korea to ESG implies a once-in-a-lifetime opportunity to transform the country's economic, business, social, and environmental landscape. This cannot be taken for granted, however. "Greenwashing" (using ESG for marketing rather than real social impact) and lack of regulatory clarity remain key barriers.

3 According to The World Bank, South Korea's manufacturing sector accounted for 24.8 percent of its GDP, whereas manufacturing in the EU and the USA accounted for just 14.6 percent and 10.9 percent, respectively.

Who Are the Key Stakeholders?

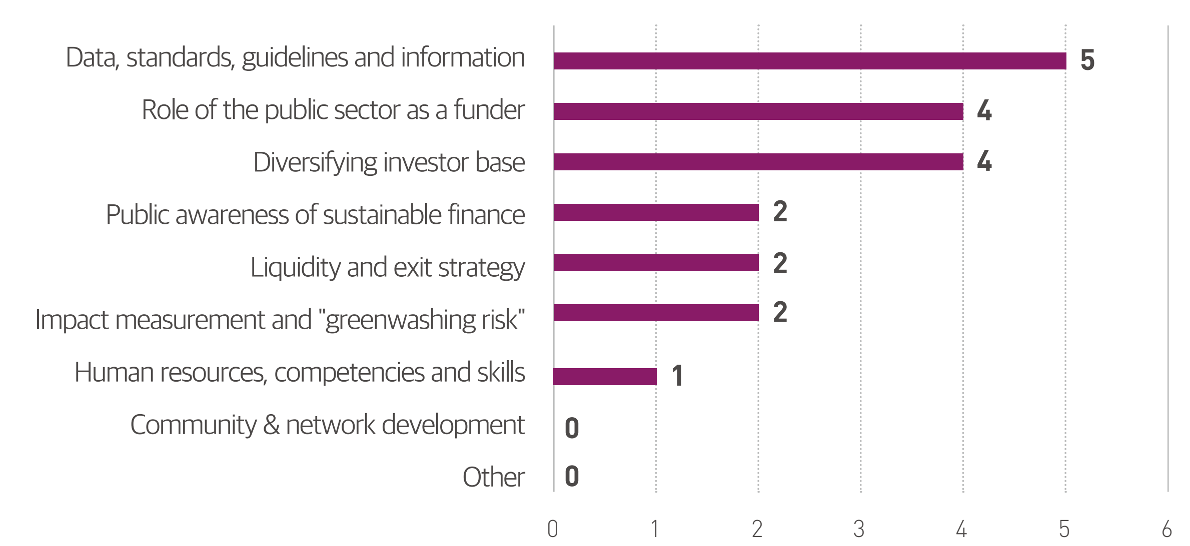
Before developing ESG policy recommendations, it is important to understand the stakeholders and their key areas of interest, as described in the table below. Regulatory clarity is a unifying theme for most of these stakeholders.

Stakeholder Segment	Key Areas of Interest
Public sector	• Ensuring that ESG addresses public goods such as social inclusion and consistency and integrity in disclosures and reporting.
Multinationals	• Incentives on the supply or compliance side. Incentives can take various forms—not just tax credits, but also signaling the importance of ESG to the market through a policy plan or coordination efforts through public-private dialogue. • Regulatory clarity.
Venture capital (including VCs serving social entrepreneurs)	• Bridging the funding gap between VC and ESG finance (i.e., an intermediary market) • Absorbing liquidity after 2026 • Inefficient social financial market
Asset management	• Lack of standardized data platforms (need for consistent guidelines or principles) • Challenges in devising and reporting nonfinancial metrics that ensure comparability, accuracy, and credibility (i.e., DART) • Korea Exchange is set to require ESG disclosure by 2030: how to prepare?
Family offices and private wealth management	• Finding trusted partners, like-minded partners, and co-investors, especially with long-term perspectives and flexible, innovative approaches • Regulatory clarity

III. Methodology

To identify and prioritize the key issues in Korea's sustainable finance landscape, the Policy Working Group was formed in May 2021, representing various stakeholder groups. After an in-depth discussion and brainstorming, facilitated by MYSC and the Asia Foundation, the working-group members chose the thematic areas in figure 1 as priorities:

[Figure 1] Priority ESG Issues



These categories have been further simplified and reorganized under two main thematic areas :

1. Information disclosure and measurement
    a. Data, guidelines, disclosures, and information
    b. Impact measurement

2. Vitalizing the sustainable finance ecosystem through market-friendly approaches
    a. Role of the public sector
    b. Diversifying the investor base
    c. Public awareness of sustainable finance
    d. Liquidity and exit strategy

The working group met from May to December 2021 (including monthly meetings and other work) to address these subjects and consider potential policy recommendations. The group also invited expert guest speakers to make presentations on K-ESGs, impact-weighted accounting, and the case study of Japan as a potential ESG benchmark.

IV. Key Themes in ESG and Sustainable Finance in Korea

A detailed summary of the discussions in the IFB Policy Working Group are included below.

1. Information Disclosure and Measurement

1.1 Information and Disclosure

1.1.1 Voluntary and nonvoluntary disclosure of ESG data. There are divergent opinions around the world about whether to rely on voluntary or compulsory disclosure of ESG data. While the United States takes a voluntary approach, the EU is becoming much more compulsory in its approach to ESG regulations. Thoughtful deliberations about context, characteristics, and stakeholders are needed to decide Korea's approach.

1.1.2 Insufficient ESG data and unclear requirements for corporate disclosure. This is one of the largest policy gaps identified by the working group, but some progress is being made. The Financial Services Commission (FSC) has announced mandatory ESG reporting for Korean firms meeting certain criteria (listed firms with more than KRW 2 trillion in assets) beginning in 2025, and for all KOSPI firms beginning in 2030.

1.1.3 Lack of central guidance. According to a survey of 500 member companies by the Federation of Korean Industries (FKI), "ambiguity of ESG scope and standards" ranks as the top challenge for implementation of ESG.

1.1.4 High cost of ESG reporting, especially for SMEs. A survey by the Federation of Middle Market Enterprises of Korea (FOMEK) identified the cost of developing ESG data and reports as the main barrier for mid-sized companies. The quality gap in ESG reporting between small and large firms, due largely to the costs involved, has been identified as a key issue by FKI.

Box 1 : Cost Implications of ESG Disclosure in Korea

As the Korean government continues to strengthen the rules for mandatory ESG disclosure, many companies are outsourcing their ESG disclosure activities to consulting firms with the relevant expertise.

A December 2021 survey of 254 listed Korean companies by the Korea Listed Companies Association (KLCA) found that the average cost for ESG disclosure services was roughly KRW 93 million per year, and that more than 50 percent of the surveyed companies spent more than KRW 100 million per year.[4]

The estimated cost breakdown for ESG disclosure, based on the KLCA report and a report from the Korea Chamber of Commerce and Industry (KCCI)[5] is as follows:

Types of Service	Estimated Cost (KRW)
Advisory/proxy service for sustainability report development	86.6 million
Third-party assurance services	15 million
Other costs (legal affairs, administration, labor, etc.)	197 million
Total	**298.6 million**
Average number of dedicated employees	5
Average number of working days per year	90

While reliance on outside experts is still common in Korea, some large conglomerates are beginning to build in-house capacity for sustainability and ESG disclosure in the form dedicated departments or teams. This is not yet the case for smaller firms, however, due to lack of resources and expertise, and they continue to rely on outside consultants and advisory firms.

In fact, a KLCA survey found that 56.4 percent of large conglomerates with more than KRW 2 trillion in assets already had a dedicated department or team for ESG and sustainability in place, and 27.3 percent had a temporary task force. In contrast, 78.5 percent of firms with less than KRW 500 billion in assets had no dedicated department or team or a temporary task force.

4 "Flood of ESG Mandates, Companies are Suffering," Seoul Economy [Korean], December 16, 2021, https://www.sedaily.com/NewsView/22VBEMQI98

5 Korea Chamber of Commerce and Industry, Company Survey on ESG Expansion and Establishment [Korean], December 2021, http://www.korcham.net/FileWebKorcham/Esg/ESG%20%ED%99%95%EC%82%B0%20%EB%B0%8F%20%EC%A0%95%EC%B0%A9%EC%9D%84%20%EC%9C%84%ED%95%9C%20%EA%B8%B0%EC%97%85%20%EC%84%A4%EB%AC%B8%EC%A1%B0%EC%82%AC%20%EB%B6%84%EC%84%9D%20%EA%B2%B0%EA%B3%BC%EB%B3%B4%EA%B3%A0%EC%84%9C.pdf

1.2) Measurement and Accounting

1.2.1 Wide divergence of ESG measurement and reporting standards. According to the Ministry of Trade, Industry, and Energy (MOTIE), there are over 600 different standards for ESG measurement and reporting in use in Korea. This is a problem, because different measurement standards produce different measurement results. Some innovations in ESG measurement are worthy of note, such as impact-weighted accounting, presented to our working group by the Korea National Advisory Board of the Global Steering Committee for Impact Investment (see annex 2).

1.2.2 Development of K-ESG by the Korean government. In response to the need for uniform standards for ESG measurement and reporting, the Korean government developed its own K-ESG Index, which is now undergoing pilot testing with 200 companies in Korea. Some questions have been raised about its acceptability, however. In its earliest version, it leaned more towards CO2 emissions and industrial accidents. It was also unconnected to existing global standards, creating the risk of isolation from global markets (see annex 1 for a summary of the K-ESG index).

1.3 Lack of Public Awareness of Sustainable Finance and ESG

1.3.1 Increasing level of awareness of ESG and sustainability among companies and the public. In an FKI survey in April 2021, 66 percent of CEOs showed interest in ESG. The key drivers of this interest were external factors—such as pressure from investors, legal compliance requirements, and brand image—rather than perceptions of strategic opportunity. On the demand side, a survey by the Korean Chamber of Commerce found that 63 percent of the general public said that a firm's ESG-aligned activities influenced their consumption behavior. Importantly, these figures are even higher among the younger generation: 86.2 percent of Millennials and Generation Z (the "MZ-generation") said they purchase products from companies with strong ESG performance if the price is the same as competing products, and 69.6 percent said they were willing to boycott firms with poor ESG performance, according to a survey of 1,000 MZ-generation respondents by Hankyung Business in October 2021.[6]

1.3.2 Lack of clear understanding of ESG and sustainability. According to the 2021 FKI survey, despite the high levels of interest in ESG and sustainability, understanding of the concept was low. Some 29.7 percent of respondents identified "ambiguity of the concept and scope" as a major obstacle preventing large companies from developing ESG strategies. The same lack of understanding held true for mid-sized companies, 19.8 percent of which said that it was the biggest barrier to ESG implementation, while only 16.8 percent said they were "prepared" to comply with ESG standards.

6 "MZ-Generation: 49.6 percent will buy environment-friendly products even if it's more expensive," Hankyung Business [Korean], October 27, 2021, https://magazine.hankyung.com/business/article/202110200135b

Among the general public, particularly younger generations, 72.7 percent do not have a precise understanding of ESG and sustainability (Center for Free Enterprise 2021).

Even among the major conglomerates, lack of understanding is preventing effective integration of ESG with their businesses. For many large corporations, "ESG is just a fancy name for CSR," and while 52 percent of listed companies with assets of more than KRW 2 trillion have newly established ESG committees, only 31.3 percent of the agendas discussed in these committees were directly related to ESG.[7] Also, according to the Citizen's Coalition for Economic Justice, because the South Korean economy is heavily driven by large conglomerates, there is limited scope for global investors to invest in South Korea, leading to a lower level of competition for global capital. Therefore, at least at the local level, the risk that global investors will screen out businesses that are less active in ESG management does not outweigh the affiliated costs and efforts.[8] As a result, the market incentives for putting resources and effort into ESG-aligned management may not be sufficient for large conglomerates in Korea compared to companies overseas.

2. Vitalize Korea's Sustainable Finance Ecosystem through Market-Friendly Approaches

2.1 The Role of the Public Sector as a Funder in the Ecosystem

2.1.1. Large share of public funding in the sustainable finance market. The total public funding in sustainable finance in 2021 (excluding the national pension fund) was KRW 39.3 trillion, including grants, loans, guarantees, and equities, as well as socially responsible investment (SRI) bonds. In the case of the national pension fund, the National Pension Service (NPS) currently manages KRW 870 trillion, investing 24 percent of its portfolio in ESG-aligned assets (public equity) which it intends to increase to 50 percent by end of 2022.

The proportion of government funds to private funds in South Korea's sustainable-finance bond market is higher than other countries, standing at 59.4 percent of new bond issues in 2021,[9] compared to 32.3 percent in France,[10] 29 percent in Japan,[11] 23 percent in the United States,[12] and 27 percent in ASEAN.[13]

2.1.2. Potential distortions of policy due to funding imbalance between public and private sector. While there have not been any systematic studies of the impact of sustainable finance on Korean

7 Kim Hyun-bin, "Korean Conglomerates Struggle to Integrate ESG into Business," Korea Times, March 22, 2022, https://www.koreatimes.co.kr/www/tech/2022/03/419_325940.html 8 Ibid.

9 Korea Investors Service, "Current Trends of Sustainable Green Finance in Korea" [Korean], presentation at the Climate Change Center's second GENIE Forum, September 30, 2021, http://www.climatechangecenter.kr/boards/reference/view?&page=1&id=1693

10 Statista Research Department, "Ranking of Main Issuers of Green Bonds in France in 2018," January 2021,

11 Climate Bonds Initiative, "Japan: Green Finance State of the Market 2020," March 2021,

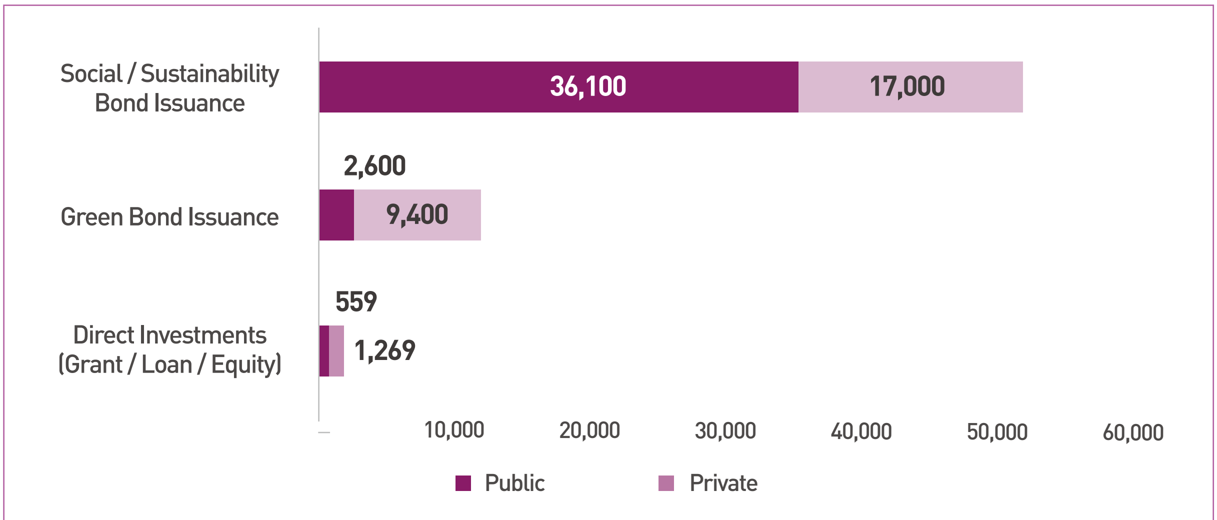
12 Climate Bonds Initiative, "North America State of the Market 2021," June 2021,

13 Climate Bonds Initiative, "ASEAN Sustainable Finance: State of the Market 2020," April 2021,

companies and society at this early date, a 2018 OECD study of Korea's public funding and other support for SMEs can serve as a helpful reference. The study, citing several Korean evaluation studies, concluded that current public programs to support SME financing actually lowered the productivity of recipient firms and increased the survival of less competitive firms, resulting in a negative impact on the national economy. For example, once a firm receives public financing, the government and the intermediary entity, such as a private bank, have an incentive to insure the firm's survival independent of the firm's economic viability. Other adverse effects include (a) crowding out the private sector by reducing market incentives to develop credit-evaluation and risk-management skills for SME lending, and (b) discouraging companies from expanding by targeting public support to more mature firms,, thereby perpetuating their small size (the average age of firms in Korea that receive public loan guarantees is 11 years, with more than half of guarantees given to highly rated companies). The tax system which favors small size companies, along with public financing schemes for SMEs, perpetuates incentives for firms to stay small.

The key takeaway from the OECD study is not that public funding is not necessary, but that it may be going to the wrong places. In the context of Korea's sustainable finance environment—including direct funding to social enterprises, public housing, green bonds, etc.—similar distortions may exist. An in-depth evaluation of how the growing pool of sustainable finance is being used is needed now, to ensure that the funds go where they are needed most and where the impact can be the greatest while minimizing policy and market distortions. This evaluation will help ensure a stronger sustainable-finance ecosystem, making it more competitive both in Korea and globally.

[Figure 2] Public and Private Investment in Sustainable Finance in Korea in 2021 (Billions of KRW)

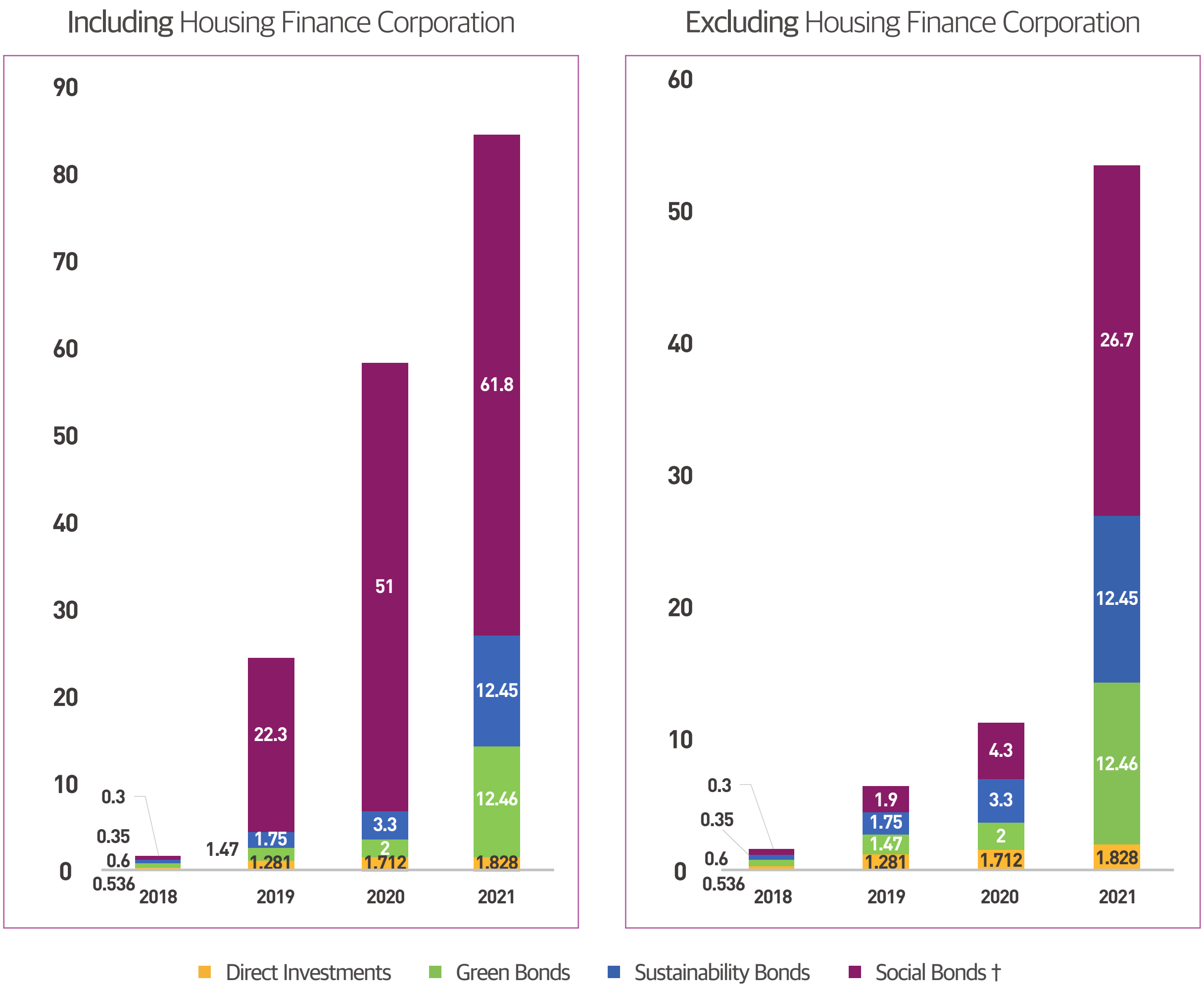


* Source: Financial Services Commission (FSC)[14], Korea Investors Service[15]

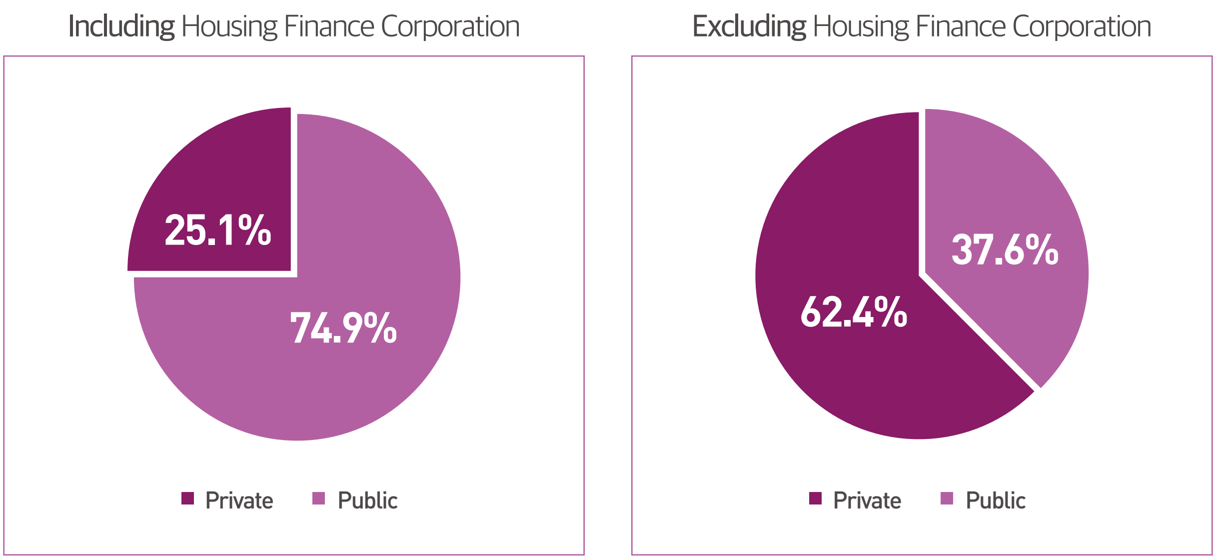
14 Data on public and private investments retrieved from FSC's official media report, accessed December 16, 2021, https://www.korea.kr/news/pressReleaseView.do?newsId=156486821

15 Korea Investors Service, "Current Trends of Sustainable Green Finance in Korea" [Korean], presentation at the Climate Change Center's second GENIE Forum, September 30, 2021, http://www.climatechangecenter.kr/boards/reference/view?&page=1&id=1693.

[Figure 3] Evolution of Sustainable Finance in Korea, 2018 to ≈2021[16] (Trillions of KRW)



[Figure 4] Ratio of Public/Private Bonds Outstanding to Total SRI Bond Market in Korea, as of Dec 31, 2021



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16 Source: Financial Services Commission (FSC), Korea Exchange (KRX). "Direct investments" in 2021 includes data up to end of October only.
* Sustainability Bonds: Debt securities issued to fund businesses that are environmentally friendly and can create social values.
† Social Bonds: Debt securities issued to raise capital to invest in businesses that can create social values.

2.2. Diversification of Investor Base

2.2.1. Limited number of VCs and business accelerators dedicated to impact investments. According to MYSC, of a total of 171 VCs in Korea, only three are dedicated to impact investments (Yellowdog, D3 Jubilee Partners, and HG Initiative), and of 322 business accelerators in Korea, only five are dedicated to impact investments (Sopoong Ventures, Impact Square, MYSC, Krypton, and Korea Social Investment). The small number of players in the ecosystem implies a strong need to diversify the impact investment base beyond dedicated VCs and accelerators.

2.2.2. New players in the impact investment landscape. Other than VCs and business accelerators, some new players have recently emerged. Corporations in particular are emerging as new impact investors (corporate impact venture capital), either through CSV (shared value), direct equity investing, or limited partnerships (LPs). SK Group has been interested in impact investing, with around USD 12.5 million committed in 2022 to invest in scaling up social ventures. Nonprofit foundations and NGOs are tapping into investment opportunities to better pursue their missions. For example, Good Neighbors has created Good Neighbors Global Impact as a separate foundation specializing in investment.

2.2.3 Lack of policy incentives to engage in sustainable finance. Unlike countries such as the United States and the EU, there are virtually no policy incentives, like tax exemptions, for impact investing, and rules and regulations are vague for not-for-profit foundations interested in investing in the public good.

2.3. Liquidity and Exit for Sustainable Investments

2.3.1. Few exit options for private equity (venture) investments. Currently, exit options in Korea are limited to Mergers & Acquisitions (M&A) and Initial Public Offerings (IPO), which involve uncertainty risks and require a long time to produce liquidity, effectively acting as a barrier to entry for new players. This poses a significant risk to the impact investment sector that must be addressed in the coming years. Possible approaches include (a) new players in the market dedicated to acquiring or investing with additional rounds of finance, (b) developing a secondary market or social stock exchange, and (c) creating measures for partial exits, such as profit sharing.

2.3.2. Firms unprepared to comply with ESG standards before IPO. As ESG compliance is not required of unlisted firms, recently listed companies often struggle with compliance after going public. The need for pre-IPO firms to prepare for ESG and sustainability compliance in advance has been emerging as a gap in Korea's sustainable finance ecosystem.

V. Policy Recommendations

1. Develop a strategic plan to guide and signal the importance of sustainable finance in Korea

The South Korean government should establish a vision and set a clear agenda for interagency and public-private cooperation. A “control tower” is needed—a mechanism for central coordination of the strategic plan. These measures will signal to the private sector and other stakeholders what to expect in the way of policy and regulatory developments. This can be a relatively quick win for the new South Korean administration.

The strategic plan should recognize the interests of key stakeholders, including both traditional players, such as asset owners, managers, and insurers, and new players in sustainable finance, such as endowments, foundations, and academia.

Until 2021, the Korean government has largely focused on providing environmental guidance.[17]
A similar role is described in the European Commission’s Strategy for Financing the Transition to a Sustainable Economy (European Commission 2021).

2. Conduct an impact evaluation of Korea’s sustainable finance policies

Total public funding for sustainable finance was KRW 39.3 trillion in 2021. The effect of large concentration of public funds in the market has not been sufficiently examined, including potential market distortions and the proliferation of “zombie” companies that would not survive without government support.

To date, no significant impact evaluations of Korea’s sustainable finance and/or lessons for future policies have been found, suggesting that this is a key gap for the government to fill.

17 The Korean government is primarily focused on the 2050 Carbon Neutral Implementation Strategy (2050 탄소중립 추진전략), established in December 2020. The Strategy has a separate section entitled “Green Finance.” A number of government activities aligned with this focus are taking place, including:
- A Green Finance Implementation Task Force led by the Financial Services Commission and the Ministry of Environment
- Development of a K-Taxonomy to define and categorize “green” activities and businesses, led by the Ministry of Environment
- Development of Green Bond Guidelines

According to MOTIE, the amount budgeted for this Strategy in 2022 is over KRW 11.7 trillion.

3. Align tax credits or investment incentives with government strategy (the sustainability agenda)

The government strategy for ESG and sustainable finance (recommendation #1 above) should be consistent with other government plans, and guide the fiscal and policy framework. It should promote a low-carbon economy (i.e., achieving carbon neutrality by 2030) and inclusive development (i.e., investments in local development outside Seoul).

To diversify the investment base, tax credits or incentives for new players in the sustainable finance landscape can be considered. This includes incentives (tax exemptions) for impact investment firms, as well as clear regulations for nonprofit organizations with investment roles.

Summary of current government actions. The government has planned to provide tax incentives for companies linked to green activities,[18] and has amended the enforcement decree of special tax treatment control act in March 16, 2021 to include such companies for provision of tax incentives.

4. Lead in the development of a sustainable finance taxonomy

A sustainable finance taxonomy will establish consistent concepts and terminology for future policy development. Potential benchmarks include the EU's Taxonomy Regulations, which require member states to apply the taxonomy when regulating sustainable finance.

One important component of the taxonomy will be terminology related to social investments. The current taxonomy centers on the environment, specifically to provide guidance for green investments. However, with social projects coming into focus as a result of the pandemic, and diversity and inclusion commanding greater attention, the global market is beginning to address social issues. The EU announced its own proposed social taxonomy in February 2022 (EU Platform 2022). Korea must develop a social taxonomy tailored to its own needs while aligning with global standards when possible.

Summary of current government actions. The Korean Ministry of Environment recently unveiled its K-Taxonomy, providing uniform definitions of green activities that the government will refer to in policies and regulations governing green and non-green businesses.

18 Hyeji Kim, "The government to put a price on carbon emissions once again, while providing tax incentives to carbon-neutral companies", News1 [뉴스1], December 7, 2020, https://news.naver.com/main/read.naver?mode=LSD&mid=sec&sid1=101&oid=421&aid=0005035152

5. Clearer regulatory guidance on compliance and disclosure

5.1. Voluntary vs. compulsory. South Korea can start by adopting a "comply or explain" approach, similar to Singapore's current regulations for sustainability reporting, then evolve into compulsory disclosures as quickly as possible, following the example of Europe. South Korea may consider adopting a phased approach by key sectors similar to Singapore's.[19] Regulatory guidance should be consistent with national priorities in the strategic plan for sustainable finance.

Currently in Korea, the government is using a multiphase, compulsory approach to ESG disclosure by listed companies: mandating ESG disclosure to KOSPI-listed companies with over KRW 2 trillion in assets in 2025 and expanding the mandate to all KOSPI-listed companies in 2030.[20]

ESG disclosure requirements have put a significant burden on companies, with 88.6 percent responding that they feel pressured by the mandate, mainly due to lack of understanding and guidance. To address these needs, the Korean government, led by MOTIE, announced its K-ESG Guidelines on December 2021 to provide an overall understanding of ESG and clarify what to disclose and how to assess each index.

5.2 Reporting standards. The K-ESG Guidelines have been well received for providing an overall understanding of how to approach ESG disclosure and laying out a common set of ESG disclosure indices that suit the Korean context.[21] Some experts argue, however, that the new K-ESG Guidelines merely show which boxes to check to score well on external ESG evaluations, without giving consideration to aligning ESG components with overall business activities or Korean national priorities such as the Green New Deal.[22] Moreover, many question the credibility of K-ESG in the global market, as the guidelines were largely developed by the government, unlike other indices, such as MSCI and DJSI, that were driven by investors, the actual users of the information. Without global credibility, experts warn, Korean firms will have to provide reporting based on global standards in addition to K-ESG reporting, increasing the burden of compliance.[23]

19 Singapore is phasing in climate reporting in the financial, energy, agriculture, food, and forest product sectors beginning in 2023. The building and transportation sectors will be included in 2024. See "SGX mandates climate and board diversity disclosures," News Release, SGX Group website, Dec. 15, 2021, (https://www.sgx.com/media-centre/20211215-sgx-mandates-climate-and-board-diversity-disclosures)

20 Financial Services Commission, Press Release, January 14, 2021, https://www.fsc.go.kr/no010101/75176

21 For example, while global ESG indices often include an index for the diversity of an organization, the K-ESG Guidelines have omitted this index due to the homogeneous demographics of Korea.

22 Seung-kwon Yoo, "K-ESG Guidelines: The First Step Could Have Been Better," ESG Economy [ESG 경제], December 5, 2021, http://www.esgeconomy.com/news/articleView.html?idxno=1625)

23 Min-seok Park, "Korean Government-led K-ESG Not Well-Received on Field," Daily Impact [데일리임팩트], December 3, 2021, http://www.dailyimpact.co.kr/news/articleView.html?idxno=73577)

To address these issues, the K-ESG Guidelines can be refined to better align with global frameworks such as GRI, TCFD, and SASB, which encourage the integration of sustainability into businesses' overall strategy. This alignment with global standards would build credibility for global investors and streamline reporting for Korean firms. Given that 130 Korean businesses are filing sustainability reports based on international standards like GRI, TCFD, and SASB, these standards should be considered as part of the revision. Alternatively, the newly established ISSB intends to offer global standards for sustainability disclosure in 2022,[24] which can be considered as part of the revision process of the K-ESG Guidelines.

Summary of current government actions. Concerns over regulatory and policy fragmentation, resulting in undesirable complexity and inconsistency, are rapidly growing around the world. Korea has been playing an important role as a regulator of capital markets, overseeing the Korea Exchange (KRX), and encouraging more responsible and sustainable investments through ESG and SRI index funds.[25] However, the need to align ESG and sustainable finance policies is also observed in Korea, where different players are competing to take the lead in ESG reporting standards. For example, while the K-ESG Index is an admirable effort, it is still too early to tell whether this will be widely adopted by the business and investment communities.

5.3 A more inclusive policy for small and medium enterprises. SMEs could benefit, both from the growing availability of funding that looks at ESG criteria, and from the opportunity to improve their business operations with sustainable practices. However, adhering to ESG standards is prohibitively costly for many SMEs. It is recommended to ease the cost to SMEs of ESG compliance through tax and other incentives.[26]

The government and the FSC may consider providing subsidized training workshops to increase companies' understanding of sustainability reporting and to build their capacity to produce sustainability reports. In Singapore, SGX offered subsidized sustainability reporting workshops in 2017, when sustainability reporting was mandated for listed companies.[27]

24 "Korean Translation of SASB Standards Made Available to Facilitate Sustainability Disclosures," Press Release, Financial Services Commission, Nov. 10, 2021, https://www.fsc.go.kr/eng/pr010101/76850?srchCtgry=2&curPage=&srchKey=&srchText=&srchBeginDt=&srchEndDt=.

25 The Asia Foundation, Survey of Sustainable Finance in Korea (Asia Foundation, 2020).

26 Current policies and regulations for sustainability disclosure and reporting only target large, listed companies. Given their role in the economy and society, it is important to include smaller firms, but surveys show that high costs and administrative overhead are key challenges. See Federation of Middle Market Enterprises of Korea (FOMEK), Survey of Middle-Sized Firms' Views on ESG (FOMEK, 2021), https://www.fomek.or.kr/main/bbs/board_view.php?pk_seq=573&sc_bo_table=now&page=1 &)

27 "SGX Offers Companies Subsidized Sustainability Reporting Workshops," General Announcement, SGX website, https://links.sgx.com/1.0.0/corporate-announcements/HXBM6ZMF6C7P1GA2/20170207_SGX_offers_companies_subsidised_sustainaiblity_reporting_workshops.pdf

Summary of current government actions. Korean policies to ease ESG compliance for SMEs are in an early stage. In August 2021, the Minister of economy and finance, who also was the Deputy Prime Minister of Korea, announced plans to provide tax credits to SMEs to offset the costs of ESG reporting and management.[28] As a result, the enforcement decree of special tax treatment control act was amended in March 18, 2022 to provide SMEs with tax incentives for costs incurred to receive education and consulting on ESG practices. Also in November 2021, the Ministry of SMEs and Startups established a public-private committee to discuss policy measures and initiatives to support ESG management and disclosure by SMEs.[29]

6. Facilitate liquidity and exit

Although the total value of ESG investment funds in South Korea is currently estimated as approximately 7 billion USD, while showing a 300% increase over the past three years, successful IPO cases of an "ESG Unicorn" is rare in the KOSDAQ market. NOUL, a healthcare social venture, is an exception, successfully going public in March of 2022[30]. Many ESG-aligned ventures are still at its early-growth stage in South Korea, therefore facilitating liquidity and exit of investments on such ventures is currently a gap. Potential solutions to address this gap include the vitalization of Korea New Exchange (KONEX)[31] and development of secondary funds.

Meanwhile, to include ESG and sustainability factors during investment exits, earlier-stage ESG and sustainability compliance and reporting should be required before going public. An example is the Stock Exchange of Hong Kong's Guidance Letter to IPO applicants requiring disclosure of such information.

Although the government has not moved in this direction, there have been cases where private companies—particularly SK Eco-Plant—attempted to differentiate themselves from competitors in the IPO market by highlighting their ESG-aligned business plans.[32] Whether this will become a trend is not yet known.

28 Minseo Kwak, "Nam-ki Hong, 'Plans to Provide Tax Incentives for SMEs' ESG Management Costs'", Yonhap News 연합뉴스, August 26, 2021, https://www.yna.co.kr/view/AKR20210826018600002

29 Anna Kwon, "Joint Committee Launched as Public-Private Partnership to Support SMEs Response to ESG", Newsis 뉴시스, November 23, 2021, https://news.naver.com/main/read.naver?mode=LSD&mid=sec&sid1=101&oid=003&aid=0010848775

30 Yujin Park, "Social Venture 'NOUL': 'IPO is Just a Milestone··· Will Create Impact for 10 billion people'", Eroun Net 이로운넷, March 30, 2022, https://www.eroun.net/news/articleView.html?idxno=27889

31 KONEX (Korea New Exchange, 코넥스) is an securities exchange exclusively for small and medium-sized enterprises (SMEs) and venture companies prior to listing on KOSDAQ. KONEX was established to facilitate SMEs and venture capitalists to raise fund or collect investments in 2013.

32 Eunseo Koo, "ESG to Become a Deciding Factor for IPO Performance Assessment", Hankyung 한국경제, June 6, 2021, https://www.hankyung.com/finance/article/202106045168i.

33 Gi-Song Kim, "'ESG Data in One Place'··· First Public 'ESG Portal' Service Launched", SBS Biz, December 19, 2021, https://news.naver.com/main/read.naver?mode=LSD&mid=sec&sid1=101&oid=374&aid=0000268386. The ESG Information Platform can be found at http://esgportal.kr.

34 Monetary Authority of Singapore (MAS), "Sustainability Report 2020/2021," MAS website, June 9, 2021, https://www.mas.gov.sg/publications/sustainability-report/2021/sustainability-report.

7. Promote ESG awareness

This includes providing easy-to-access ESG information to the public, including the strategic plan and the taxonomy described above, as well as information on the ESG performance of companies. A possible model is the EU's European Single Access Point (ESAP), which provides financial and sustainability information about companies, made public pursuant to EU legislation.

Summary of current government actions. The government launched its new ESG information platform, which is managed by KRX on December 20, 2021.[33] Led by FSC, the purpose of the platform is to centralize ESG information that was previously scattered among various government bodies. The current platform provides, among other things, ESG ratings (based on a different ESG indices) and sustainability reports of companies that have disclosed their information.

8. Consider strengthening the role of the central bank in sustainable finance

The Bank of Korea (BoK) could enhance its role by guiding other banks and financial institutions towards environmentally and socially responsible investments. As an example, the Bank of Japan's new climate program provides one-year, zero-interest funds to financial institutions for loans and investments in sustainable products such as green bonds.

BoK might also consider publishing an inaugural sustainability report to set the bar for ESG disclosures. Doing so would demonstrate BoK's commitment to sustainability and signal to other financial institutions and companies the direction the government and the market are heading. It would establish the government's reporting expectations and provide a model of how a sustainability report should look. BoK could consider as benchmarks the inaugural sustainability report of the Monetary Authority of Singapore (MAS), which sets out their strategy on climate resilience and sustainability,[34] and the 2020 Annual Report of the Hong Kong Monetary Authority (HKMA), which included a section laying out their roadmap for green and sustainable finance.[35]

Summary of current government actions. The BoK has already signaled its investment priorities for ESG-aligned assets. In September 2021, BoK announced plans to apply a comprehensive ESG assessment to its investments in foreign assets, mainly based on negative screening. BoK has been steadily increasing its portfolio of ESG-aligned assets in recent years, with its ESG-aligned stock holdings rising by USD 140 million between 2020 and 2021, and its ESG-aligned bond holdings by USD 1.52 billion.[36]

35 Hong Kong Monetary Authority (HKMA), 2020 Annual Report (Hong Kong: HKMA, 2020), https://www.hkma.gov.hk/media/eng/publication-and-research/annual-report/2020/AR2020_E.pdf.

36 Eun-sil Yoo, "Bank of Korea, 'The Big Hand in Asset Management', to Change its Investment Criteria to Reflect ESG", Seoul Finance [Korean], September 28, 2021, http://www.seoulfn.com/news/articleView.html?idxno=433118

Policy Recommendations

Role	Recommendation for Korea	Reference Examples from EU, Singapore, Japan, Hong Kong, and the United States
Agenda setter ("signaler") and funder	1. Develop a strategic plan to signal the importance of and guide sustainable finance in Korea. 2. Conduct an impact evaluation of Korea's sustainable finance policies. 3. Align tax credits or incentives on investments with the government's sustainability agenda and strategy.	EU Strategy for Financing the Transition to a Sustainable Economy, Singapore's Green Action Plan EU : Impact assessment for the delegated act on climate change mitigation and adaptation under the Taxonomy Regulation (2021)[37] US tax credits / incentives for engagement in sustainable finance (e.g., IRC Section 48C to provide tax credits for investments in clean energy technologies)
Guidance	4. Lead the development of a sustainable finance taxonomy.	EU : Guidelines on Non-Financial Reporting by ESMA (2019) EU : Taxonomy for Sustainable Activities European Central Bank : Guidelines on Reporting Climate-Related Information, 2017
Regulator	5. Set regulatory guidance on compliance and disclosure. 6. Facilitate liquidity and exit.	EU : Corporate sustainability reporting directive (CSRD), by adopted in 2021 EU : Delegated Acts on Fiduciary Duties, Investment, and Insurance Advice[38] Singapore : Financial Institutions Climate-Related Disclosure Document, by the Monetary Authority of Singapore (2021). Hong Kong Stock Exchange : guidance letter to IPO applicants requiring disclosure of such information

37 In the EU, impact assessments are carried out to support investment activities by making it clearer which economic activities most contribute to meeting the EU's environmental objectives. Such impact assessment reports are published by the EU, usually before a new initiative, policy, or regulation is fully put in place (mostly when the idea is in its development stage), by a group of economic experts in EU Commission bodies.

Role	Recommendation for Korea	Reference Examples from EU, Singapore, Japan, Hong Kong, and the United States
Facilitator, coordinator, platform role	In Korea, an official public-private task force, facilitated by the Financial Services Commission, was established in August 2020. Key stakeholders in the financial markets, such as FSC, Bank of Korea, relevant government ministries, and major private banks are members of the task force. While the task force originally focused on green finance, it recently expanded its scope to include sustainable finance and ESG as a whole.[39]	EU : Expert group to help implement measures in the European Commission's Action Plan on Financing Sustainable Growth (2020) Singapore's task force on climate and ESG issues
Information provider	7. Promote ESG awareness.	EU : One-stop shop for European Single Access Point (ESAP) for Financial and Non-Financial Information Publicly Disclosed by Companies (in-progress, 2021) EU : Circular Economy Finance Support Platform (2020) US : Commodity Trading Commission publication, Managing Climate Risks in the US Financial System
Institution-building	8. Strengthen the role of the central bank in sustainable finance	Japan : Bank of Japan's announcement of new climate program providing one-year, zero-interest funds to financial institutions for loans and investments in products such as green bonds

38 The Six amended delegates are as below :
1) Commission Delegated Directive amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS)
2) Commission Delegated Regulation amending Delegated Regulation (EU) No 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers
3) Commission Delegated Regulation amending Delegated Regulations (EU) 2017/2358 and (EU) 2017/2359 as regards the integration of sustainability factors, risks and preferences into the product oversight and governance requirements for insurance undertakings and insurance distributors and into the rules on conduct of business and investment advice for insurance-based investment products
4) Commission Delegated Directive amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations
5) Commission Delegated Regulation amending Delegated Regulation (EU) 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings
6) Commission Delegated Regulation amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms

39 The Six amended delegates are as below :
1) Management and supervision of climate risks in financial market
2) Development of Green Finance Guidebook for financial market
3) Status of ESG disclosure and evaluation system, and plans moving forward
4) Measures to vitalize "social finance" aligned with rising ESG trends in Korea

Annex 1 : K-ESG

In December 2021, the Korean government, led by MOTIE, acted to provide companies unified guidance for reporting and disclosure of ESG information. In the course of development, the government analyzed 13 leading ESG assessment organizations in Korea and abroad (e.g., DJSI, MSCI, Sustainalytics, GRI) and reviewed more than 3,000 measurement indices. The government also received feedback from key stakeholders, including companies, investors, think tanks, credit agencies, and the media through five working-group sessions in 2021. The government plans to update the K-ESG Guidelines every one to two years and, in 2022, to issue guidelines for specific industries and various firm sizes.

An overview of the K-ESG index is summarized in the following table.

<table>
<tr><th>Criteria</th><th colspan="3">Key Areas of Evaluation</th></tr>
<tr><td rowspan="2">Data Disclosure (5 Questions)</td><td>Method</td><td>Period</td><td>Scope of Business</td></tr>
<tr><td colspan="2">Key Issues and KPI</td><td>Verification</td></tr>
<tr><td rowspan="6">Environment (17 Questions)</td><td>Establishment of Environmental Management Goal</td><td>Environmental Policy and Organization</td><td>Quantity of Raw Materials Used</td></tr>
<tr><td>Proportion of Renewable Raw Materials</td><td>Greenhouse Gas Emissions (Scope 1+Scope 2)</td><td>Greenhouse Gas Emissions (Scope 3)</td></tr>
<tr><td>Verification of Greenhouse Gas Emissions</td><td>Energy Consumption</td><td>Percentage of Renewable Energy Use</td></tr>
<tr><td>Water Consumption</td><td>Reusable Water Rate</td><td>Waste Discharge Quantity</td></tr>
<tr><td>Waste Recycling Rate</td><td>Air Pollutant Emission Quantity</td><td>Water Pollutant Emission Quantity</td></tr>
<tr><td>Any Legal Violations Related to Environment</td><td>Eco-friendly Certified Products and Services</td><td></td></tr>
</table>

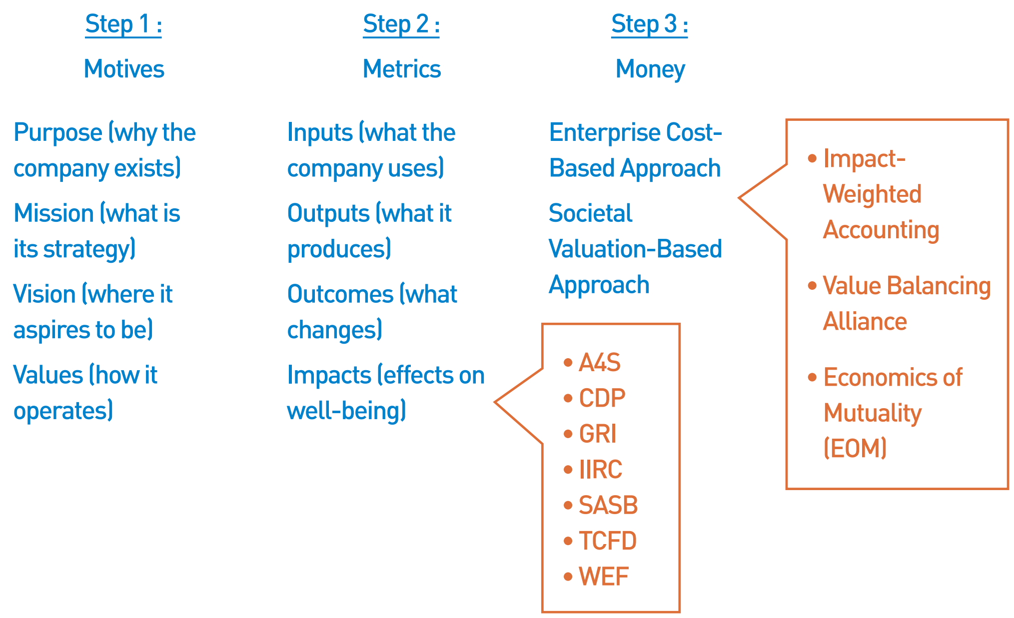
Social (22 Questions)	Establishment and Disclosure of Goals	New Employment	Percentage of Regular Workers
	Voluntary Turnover Rate	Staff Training Expenses	Education and Training Expenses
	Guarantee of Freedom of Association	Employment Rate of Female Employees	Female Remuneration Ratio (Compared to Average Salary)
	Employment Rate for the Disabled	Safety and Health Management System	Industrial Accident Rate
	Establishment of Human Rights Policy	Human Rights Risk Assessment	ESG Management of Partners
	ESG Business Support for Partners	ESG Agreement with Partners	Engagement in Local Community Development Activities
	Participation in Volunteer Work	Establishment of Information Security	Data Privacy Protection Status
	Any Legal Violations Related to Social		
Governance (17 Questions)	Presentation of ESG Agenda within the Board of Directors	Ratio of Independent Directors	Separation of the CEO and the Chairman of the Board of Directors
	Gender Diversity of Board Members	Professionalism of Independent Directors	Attendance Rate of All Directors
	Attendance Rate of Executive Directors	Committee under the Board of Directors	Handled Agendas of the Board of Directors
	Convocation of General Meeting of Stockholders	General Meeting Held Outside the Concentration Period	Concentration/Electronic/Written Voting System
	Dividend Policy and Implementation	Official Notice of Code of Ethics	Installation of Internal Auditing Department
	Expertise of Audit Team)	Any Legal Violations Related to Governance	

4 Criteria, 61 Evaluation Areas in Total

Annex 2 : Impact-Weighted Accounting

Professor Chul-Woo Moon, chairman of the Korea National Advisory Board of the Global Steering Group for Impact Investment (GSG), made a presentation to the IFB Seoul Policy Working Group. He described a framework and the evolution of ESG performance measurement:[40]

A Framework for Measuring ESG Performance



Source Measuring Purpose - An integrated Framework, Clara Barby et al, 2021

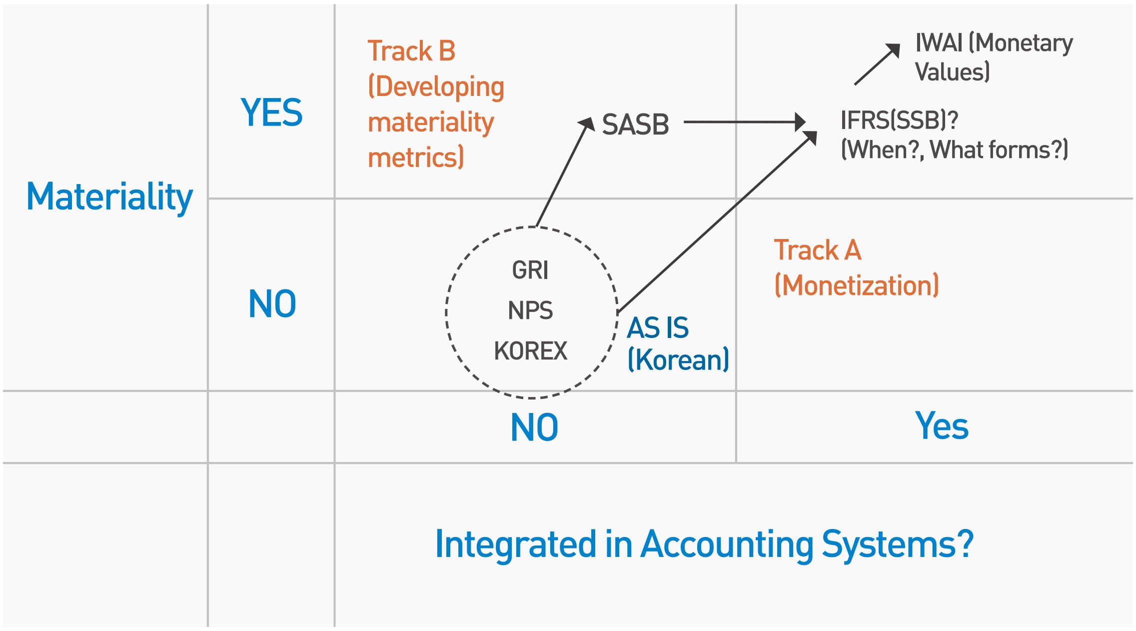
Professor Moon presented the Impact-Weighted Accounts Project, involving GSG and a number of academic institutions such as Harvard Business School and the Oxford Said School of Business. Impact-weighted accounts (IWA) are line items on a financial statement, such as an income statement or a balance sheet, which are added to supplement the statement of financial health and performance by reflecting a company's positive and negative impacts on employees, customers, the environment, and the broader society.

The aspiration is an integrated view of performance that allows investors and managers to make informed decisions based not only on monetized private gains or losses, but also on the broader impact a company has on society and the environment.

40 A4S is the Accounting for Sustainability Project, with a focus on human and social capital. CDP was formerly known as the Carbon Disclosure Project, focusing on environmental measurement and accounting. GRI is the Global Reporting Initiative. IIRC is the International Integrated Reporting Council. SASB is the Sustainability Accounting Standards Board. TCFD is the UN-backed Task Force on Climate-Related Financial Disclosures. Finally, the World Economic Forum (WEF) is also developing a sustainability standard.

Professor Moon also summarized how different measurement standards could be reflected in Korea, as illustrated in the following figure (positioned according to their level of materiality and whether they are integrated into accounting systems).

ESG measurement in Korea should be synchronized with global harmonization efforts



Measuring and valuing the impacts that companies have on society and the environment, while not itself a sufficient condition, is a necessary one for reimagining capitalism. In the absence of clearly defined impact metrics and transparency, these considerations are also likely to be absent from decision-making. Decisions will continue to be made on existing financial metrics, which do not reflect a holistic view of how an organization creates value, as they ignore impacts on employees, customers, the environment, and the broader society.

Using case studies the airline and packaged goods industries, Professor Moon demonstrated how IWA can be applied in real businesses, centering around three main "pillars": the environment, products, and employment.

Annex 3 : Japan ESG Case Study

On October 27, 2021, Kamala KC (Legal Assistant, S&L Partners) presented a case study of ESG policy in Japan to the IFB Policy Working Group. Here is a summary of her presentation.

1. Japan's Latest Policies to Facilitate ESG Financing

Date	Policy Action
Sep 2020	Ministry of Economy, Trade, and Industry (METI) announces Climate Innovation Finance Strategy 2020.
April 2021	Central government announces an increase in its greenhouse gas reduction target to a 46 percent cut in emissions by 2030, a sharp increase from the 26 percent cut pledged in July 2015.
May 2021	METI formulates the Climate Transition Finance Guidelines as a handbook for conducting transition financing aiming for carbon neutrality in 2050.[41]
June 2021	The Ministry of Environment (MOE) updates the Green Bond Guidelines.
July 2021	Bank of Japan outlines a new climate strategy: the central bank will offer zero-interest funds to financial institutions to encourage the largest banks to improve their ESG disclosures and conduct a climate-scenario analysis of their operations.
October 2021	The Financial Services Agency publishes the Social Bond Guidelines to promote the wider adoption of social bonds. While tailored to the local context, the SBGs are designed to be consistent with the standards of the International Capital Market Association.

41 Clifford Chance, Insights into ESG in Japan (Clifford Chance LLP, February 2022), https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2022/02/insights-into-esg-in-japan.pdf

2. ESG Disclosure Regulations in Japan

The main regulations governing the disclosure of information about Japanese corporations are the Financial Instruments and Exchange Act (FIEA) and the Companies Act. While FIEA requires certain corporations and entities to prepare and submit a prospectus to disclose information for the benefit of their investors, the Companies Act requires corporations to disclose their financial information and business performance for the benefit of shareholders and creditors.

Companies listed on a stock exchange such as the Tokyo Stock Exchange are required to disclose ESG-related information in accordance with the listing rules of the stock exchange. In this process, the government plays a supporting role by providing guidelines to the listed companies, such as guidance reports from METI on ESG disclosure. Due to the lack of "hard law," however, there are no material enforcement provisions with respect to ESG issues.

3. Public-Private Partnership for ESG and Sustainable Finance in Japan

As of October 2021, Japanese companies constituted the largest group of supporters of the Task Force on Climate-Related Financial Disclosure (TCFD). As of February 8, 2021, the number of supporting organizations had grown to 341, and the number of supporting companies had grown to 317. A major factor behind this success has been the TCFD Consortium of Japan, which was formed in May 2019 as a public-private partnership. This consortium brings institutional investors, financial institutions, and business corporations together to promote climate-related financial disclosure. METI, MOE, and the Financial Services Agency (FSA) also support the consortium.

The consortium framed the Green Investment Guidance, which was released at the TCFD Summit in October 2019. This guidance provided commentary on what investors and other stakeholders are looking for and how they could understand the information disclosed as required by the TCFD recommendations.

The success of this TCFD consortium is helping the transition from purely voluntary disclosure to mandatory disclosure. The Tokyo Stock Exchange (TSE) "prime" market will be required to disclose climate-related risks in line with the TCFD recommendations under the new corporate governance code. Also, beginning in 2023, FSA is likely to impose a climate-related risk disclosure obligation on listed companies. With TSE's corporate governance being soft law, a "comply or explain" approach will be taken; but, once the FSA imposes the obligation, noncompliant companies will be subject to possible fines or other penalties.

As another example of successful public-private partnership, the Japan International Cooperation Agency (JICA) implements Japan's official development assistance (ODA) in most developing countries. Japanese businesses can propose projects to JICA, and once selected, they are given the opportunity to grow their business and having a social impact in developing countries using new technology, products, or know-how. This program creates a win-win partnership among the Japanese government, Japanese companies, and developing countries.

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