Sustainable Banking Network

NECESSARY AMBITION:

How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges

June 2020

Investigation of National Approaches to Sustainable Finance in International Development Association (IDA) Countries – An SBN Task Force Report

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IFC International Finance Corporation WORLD BANK GROUP
Creating Markets, Creating Opportunities

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Abbreviations

ABP	Anchor Borrower's Program	MBA	Mongolian Bankers Association
ADB	Asian Development Bank	MSFA	Mongolian Sustainable Finance Association
AFI	Alliance for Financial Inclusion	MSFSCIP	Marginal and Small Farm Systems Crop Intensification Project
ATM	Automated Teller Machine	MSME	Micro, Small, and Medium Enterprises
CBI	Climate Bonds Initiative	NDCs	Nationally Determined Contributions
CBN	Central Bank of Nigeria	NIBSS	Nigeria Inter-Bank Settlement System
DFIs	Development Finance Institutions	NIRSAL	Nigeria Incentive-based Risk Sharing System for Agricultural Lending
ESG	Environmental, Social, and Governance	NSBP	Nigerian Sustainable Banking Principles
ESMS	Environmental and Social Management System	NSE	Nairobi Securities Exchange
ERM	Environmental Risk Management	SBN	Sustainable Banking Network
ESRM	Environmental and Social Risk Management	SDGs	Sustainable Development Goals
E&S	Environmental and Social	SEC	Securities and Exchange Commission of Nigeria
GDP	Gross Domestic Product	SME	Small and Medium Enterprise
GHG	Greenhouse Gas	SMECGS	Small and Medium Enterprise Credit Guarantee Scheme
GIRSAL	Ghana Incentive-based Risk Sharing System for Agricultural Lending	UN	United Nations
IDA	International Development Association	UNDP	United Nations Development Programme
IFC	International Finance Corporation (World Bank Group)	UNEP	United Nations Environment Programme
IMF	International Monetary Fund	UNEP-FI	United Nations Environment Programme Finance Initiative
JICA	Japan International Cooperation Agency	USD	United States Dollar
KBA	Kenya Bankers Association		

Acknowledgements

The Sustainable Banking Network (SBN) was established in 2012 to support policy and industry initiatives to promote sustainable finance at global and national levels in emerging economies. Thirty-nine countries spread across Africa, Asia, Eastern Europe, Latin America, and the Middle East have since joined SBN and committed to developing national sustainable finance frameworks and roadmaps, in line with international standards and good practices. SBN supports member countries through technical resources, capacity building, and peer-to-peer knowledge exchange.

This report and eight country profiles were prepared under the guidance of the SBN IDA Task Force members, which include (in country alphabetical order) Asif Iqbal (Bangladesh Bank), Sochinda Chan (The Association of Banks in Cambodia), Gladys Awuku (Bank of Ghana), Alejandra Stefan (Honduran Banking Association, AHIBA), Nuru Mugambi (Kenya Bankers Association), Rustam Sarybaev (The Union of Banks of Kyrgyzstan), Chansouk Phommavanh (Bank of Laos), Naidalaa Badrakh (Mongolian Sustainable Finance Association), Sushil Gyawali (Nepal Rastra Bank), and Dr. A'isha Usman Mahmood (Central Bank of Nigeria).

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Foreword from the SBN Secretariat

Georgina Baker

Vice President, International Finance Corporation (IFC)

Some 1.5 billion people live in the world's 75 poorest countries, a third of whom survive in poverty. These low-income countries, as defined by the World Bank's International Development Association (IDA),[1] are among the most vulnerable to climate change, with many already being affected. These countries also face trillion-dollar gaps in financing their Nationally Determined Contributions (NDCs) under the Paris Agreement and meeting targets under the Sustainable Development Goals (SDGs).

In 2012, IFC proudly joined forces with financial sector regulators and banking associations from 10 emerging markets to establish the Sustainable Banking Network (SBN). The founding members sought to accelerate the adoption of sustainable finance in their countries in response to urgent environmental and social challenges, and to share their experiences with peers. Since then, the Network has grown to 39 member countries, with members actively sharing their insights and collaborating toward a common roadmap. Eleven of these countries are classified as low-income by IDA. Nevertheless, by the time SBN published the first comprehensive assessment of national policies and voluntary industry initiatives to drive sustainable finance across emerging markets in 2018, we found that these low-income countries, despite understandable constraints, were not holding back on their ambitions.

What stood out was that wealth, market maturity, and level of development did not limit the transition to sustainable finance. This was further confirmed in SBN's second Global Progress Report published in 2019. While a number of low-income countries are among the countries still at the start of their journeys to promote sustainable finance, some IDA members are among the top performers: Bangladesh, Kenya, Mongolia, and Nigeria made up four of the twelve SBN countries that have reached the 'advancing' stage of their sustainable finance journeys, according to the SBN 2019 Progress Report.

The IDA Task Force was established in 2018 to delve deeper into these findings and uncover the drivers, opportunities, and innovative approaches that affect the adoption of sustainable finance in these contexts. Thanks to the rich input provided by SBN's IDA members, this report shows that, given the environmental, social, and development challenges low-income countries face, achieving sustainability within their financial sectors is crucial for delivering broader development goals, both within and beyond the financial sector. The innovative approaches that these countries have found to overcome various challenges are reflected in the practical toolkit and case studies contained in the report – resources that will be valuable to all SBN members and indeed any country seeking to transform its markets. Another exciting discovery has been the strong links with other priorities such as financial inclusion.

In this time of global uncertainty and recovery, IFC is proud to support countries on the front lines of the global transition to sustainable finance – a trend that increases market resilience and channels capital to our most urgent challenges. Over the past ten years, IFC has invested approximately 26 percent ($24.3 billion) of its own account and mobilized an additional $18.5 billion for IDA countries. In the IFC Strategy 3.0, we announced we will significantly scale up our focus on these markets by increasing our annual own account investments in the poorest and most fragile countries to 40 percent by 2030. We will also increase our annual climate related financing to 35 percent of own account investments by 2030 and quadruple the amount of annual financing dedicated to women and women-led small and medium enterprises (SMEs) by 2030. These commitments are evidence of our belief in the critical importance of sustainable financial systems that address environmental as well as social priorities. We welcome this report as a powerful contribution to the necessary transformation that is needed across all economies to build a more sustainable world.

[1] IDA stands for the International Development Association, an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries. For the full list of IDA countries and other information, please visit: http://ida.worldbank.org/about/borrowing-countries.

Foreword from the SBN Task Force

Dr. A'isha Usman Mahmood
Special Adviser to Central Bank Governor on Sustainable Banking,
Central Bank of Nigeria

Mr. Naidalaa Badrakh
CEO and a Board Member, Mongolian Sustainable Finance
Association

Eleven SBN countries – over a quarter of the countries represented by the Network – are classified as IDA countries: Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, the Lao People's Democratic Republic, Mongolia, Nepal, Nigeria, and Pakistan. Despite their IDA status, these countries have achieved remarkable milestones in sustainable finance in recent years. In some cases, progress has occurred despite significant national challenges – including national disasters, such as Nepal's earthquake in 2015. It is a story we believed was worth telling and investigating in greater depth.

Sustainable finance has emerged dramatically on the global stage in the past decade as an overarching term for both improved consideration of environmental, social, and governance (ESG) risks across all financial sector transactions as well as innovation to unlock the significant new investment opportunities in green, climate, and sustainability linked sectors. Despite the achievements of SBN's IDA members, we nevertheless need to consider the specific characteristics of IDA countries that hinder or help progress on sustainable finance; as well as the ways in which other financial sector priorities, such as financial inclusion and lending to SMEs, are closely tied to sustainable finance.

While the financial sector regulatory infrastructures in IDA countries tend to be less developed, many have gone through positive transformations in the past decade. Local financial institutions may be smaller and younger, with more limited geographic footprints. The local private sector is often smaller and less developed, which means higher risks for banks that lend to these businesses, but also a much greater need for financing to support private sector development. There is greater dependency on sectors such as agriculture and mining. IDA countries therefore have a different profile than more mature SBN countries such as China, Indonesia, and Brazil. Nevertheless, they have an opportunity to leapfrog their financial sector practices and capitalize on the rapid global shift to sustainable finance.

This report shows that IDA countries can make a substantial contribution to global development challenges, particularly with respect to poverty reduction and climate change adaptation. IDA countries are also pioneering solutions that could benefit other SBN countries. Faced with urgent and immediate development needs, shifting the financial sector to more sustainable practices is imperative for IDA countries, and is forcing regulators to commit to bold action. Thus, the title of this report: Necessary Ambition.

The global impact of the coronavirus disease (COVID-19) is demonstrating both the vulnerability and interdependence of markets. It is therefore of great significance that we are launching the report at this time. By investing in and building enabling environments in the poorest countries, we reduce risk and help increase prosperity for all markets. This report highlights the tremendous innovation that is possible through collaboration to achieve sustainable finance, not just at a country level but at a regional and international scale.

Executive Summary

Building sustainability into financial systems not only helps manage environmental, social and climate risks, but also de-risks markets to enable greater investment flows and deepened financial market development

SBN IDA member countries face unique constraints due to the size and maturity of their markets, yet they have demonstrated high levels of ambition and good progress in developing systems that support the adoption of sustainable finance. Of the 11 low-income (IDA) countries within SBN – Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, Lao PDR, Mongolia, Nepal, Nigeria, and Pakistan – four are in the 'Advancing' stage of their sustainable finance journeys, according to the 2019 SBN Global Progress Report, namely Bangladesh, Kenya, Mongolia, and Nigeria. This means they have i) introduced national policies or industry frameworks to promote sustainable finance, ii) are actively raising awareness and building capacity on this topic in their markets, and iii) are taking steps to ensure implementation and behavior change by financial institutions. In doing so, they are leading alongside peers from higher-income countries.

Sustainable finance has emerged as a pathway for IDA countries to de-risk investments and enable the financial flows needed to support climate action and sustainable development. IDA countries face acute environmental and social challenges and their governments have limited resources to address these challenges, both in terms of financing and enforcement capacity. SBN IDA members fully understand these challenges and are committed to action, particularly through the development of sustainable financial systems that can de-risk investment and unlock finance flows for climate and sustainable development priorities. National sustainable finance frameworks are made up of policies, regulations, guidance, and programs that promote higher standards of environmental and social (E&S) risk management by the financial sector while stimulating investment in green and inclusive sectors. These interventions thereby also secure enhanced credibility and lower risk for local financial institutions looking to attract international capital and position the financial sector to help address environmental and social challenges through scaled-up investment.

SBN IDA countries recognize that transitioning to sustainable financial systems is critical to their futures. IDA countries face similar environmental, social, and development challenges to higher-income countries, but they feel the costs and impacts of these challenges more intensely. Some SBN IDA countries face immediate and significant impacts from climate change, pollution, biodiversity loss, and social inequality, all of which require urgent responses. All SBN IDA countries are preparing for massive climate change impacts in the coming decades. Embedding effective management of sustainability factors within their financial sectors is therefore crucial to achieving broader development goals, both within and beyond the financial sector. However, these countries often have weaker institutional and financial sector capacity, which makes implementing sustainable finance frameworks more challenging. At the same time, local financial institutions often underestimate the benefits of sustainable finance or are wary of its perceived regulatory burdens. Support from development finance institutions (DFIs) and investors therefore remains essential to integrating sustainability into financial systems.

Sustainable finance frameworks provide an opportunity for IDA countries to increase their market resilience and unlock new green and inclusive investment opportunities. In a 2018 report, "Climate Investment Opportunities in Cities - An IFC Analysis",[1] IFC estimates a cumulative climate investment opportunity of $29.4 trillion across six key sectors in emerging market cities through 2030 – including green buildings, electric vehicles, public transport infrastructure, climate-smart water, renewable energy, and municipal solid waste management. Additional opportunities, not included in the study, include utility scale renewable energy and sustainable agriculture. IDA countries can take advantage of the relatively early stages of their financial systems to embed sustainability into the cores of their operating models in alignment with global good practices. Early action on sustainability can support these countries as they address crucial development challenges. By de-risking investments and enabling flows into new green and inclusive sectors and asset classes, sustainable finance can help unlock significant investment opportunities. This can have a major impact on the ability of these countries, with assistance from DFIs, both to meet climate ambitions and drive sustainable development.

With these opportunities in mind, this landmark report and its eight country profiles provide the first investigation into IDA countries' unique implementation of sustainable finance frameworks.

[1] Source: IFC. 2018. "Climate Investment Opportunities in Cities - An IFC Analysis." Available here: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ ifc_external_corporate_site/climate+business/resources/cioc-ifc-analysis.
To estimate investment opportunities, IFC took a sampling approach and studied 15 to 18 benchmark cities across the emerging markets. It then scaled regional estimates by using projected urban populations in 2030 to reach an aggregated global figure.

How have SBN IDA countries developed and promoted sustainable finance frameworks?

Several SBN IDA countries have developed strong and creative responses to the challenges of implementing sustainable finance frameworks. Commonly cited challenges include low levels of awareness and capacity among both SBN member institutions – financial sector regulators and banking associations – and local financial institutions when it comes to designing and implementing sustainable finance frameworks.

What factors have spurred countries to develop sustainable finance frameworks?

National commitments and pressing environmental and social challenges have been the key drivers for sustainable finance initiatives in SBN IDA countries. Three-quarters of SBN IDA members surveyed noted that a supportive policy environment is an effective driver of sustainable finance, including national commitments to the Sustainable Development Goals (SDGs) and the Paris Agreement on Climate Change. Similarly, government and industry-level recognition of critical environmental and social challenges has driven progress, particularly in countries with more established sustainable finance frameworks. Such countries typically cited more factors across both the market and policy domains as drivers of sustainable finance development, suggesting that these countries benefit from broad-based support for progress.

What approaches do SBN IDA countries adopt in developing sustainable finance frameworks?

Similar to other SBN countries, there have typically been two paths selected by SBN IDA countries in developing national sustainable finance frameworks: regulator-driven and industry-driven. In the former approach, regulators have drafted and launched sustainable finance policies and guidelines in consultation with the financial sector. Implementation has been led by central policy actors, with varying degrees of monitoring and enforcement. In contrast, under the industry-driven approach, banking associations have received mandates from their members to develop sustainable finance frameworks, such as voluntary principles and initiatives. These banking associations have drafted sustainable finance frameworks, often in collaboration with a working group of bank representatives. In this approach, adoption and implementation of a sustainable finance framework has typically been voluntary, industry-driven, and gradual. In all cases there tends to be a convergence toward a public-private partnership approach over time, thereby achieving greater buy-in across the financial sector.

Despite different paths, SBN IDA members have faced strikingly similar challenges on their journeys but have responded creatively to overcome them. Typical challenges include capacity constraints, limited national expertise, financial institution perceptions about trade-offs between profits and sustainability, and concerns about compliance burdens. However, SBN IDA members have demonstrated a range of approaches to addressing these concerns and barriers.

What are SBN IDA members' priorities as they continue to develop sustainable finance frameworks?

SBN IDA members' top priorities for future action are i) promoting green finance such as green bonds and green loans; ii) developing sustainable finance roadmaps, and iii) supporting implementation. Three-quarters of SBN IDA members identified the promotion of green finance instruments as a priority, with a green bond program considered a key next step. Half of surveyed members indicated that a next priority was to develop a national sustainable finance roadmap to support broad-based sustainable finance adoption, including both improved E&S risk management by financial institutions and innovation to unlock sustainability-focused lending and investment. Similarly, half of respondents also plan to continue developing additional tools and resources such as guidelines and checklists to support sustainable finance implementation.

Practical approaches to key challenges in implementing sustainable financing frameworks

Pathways to developing environmental and social risk management

Improving environmental and social risk management (ESRM) by financial institutions has been a core component of the sustainable finance frameworks of SBN IDA countries. This has included developing ESRM policies and guidelines for their financial sectors in line with international good practices such as the IFC Performance Standards, and providing support to local financial institutions to implement ESRM practices. These countries can further boost their implementation of ESRM by drawing on available international resources and experiences, and can leverage broad stakeholder engagement to promote shared commitment, understanding, and implementation among financial institutions. Countries may also want to take a stepwise approach to ESRM, expanding the focus or depth over time to support institutions as they develop capacity and adapt to new requirements.

Promoting green finance

Green finance, including climate-focused lending and investment, is a priority for SBN IDA members and a key driver for the development of sustainable finance frameworks. Some SBN IDA countries have already started developing enabling frameworks for green finance, such as definitions of eligible sectors and projects (taxonomies), and incentives for green lending and investments. The countries most advanced in terms of sustainable finance overall – Bangladesh, Kenya, and Nigeria – have also tended to be the most advanced in terms of green finance, indicating that some of the policy foundations of sustainable finance enable green finance opportunities. Providing resources and capacity building to promote green finance has proven to be an effective approach. Countries have also benefitted from engaging all stakeholders to help tailor policies and schemes, and from developing definitions and standards for green projects and green financing that are meaningful and actionable for national stakeholders. These can build on international support and resources, such as existing good practice examples and templates, to accelerate initial action. Working toward international alignment is also recognized as a strategy that can facilitate cross-border investment and collaboration.

Leveraging sustainable finance frameworks to support broader development objectives

Financial inclusion

Most SBN IDA members have prioritized financial inclusion within sustainable finance frameworks. Financial inclusion increases household resilience and reduces poverty. Yet it is lacking in many IDA countries due to demand barriers, such as limited financial literacy, and supply challenges, such as geographic remoteness. Financial inclusion is therefore a typical priority focus area for IDA countries. As a result, most SBN IDA members consider financial inclusion to be an essential component of their sustainable finance frameworks. In practice, however, measures to promote financial inclusion have often been conducted on a standalone basis and have not been integrated into broader efforts to create a sustainable finance system.

SBN IDA members implement both 'supply-side' and 'demand-side' approaches to support financial inclusion. Regulators and banking associations can integrate supply-side measures alongside sustainable finance mandates to boost support for financial inclusion. In particular, mandates and support for expanding access, targeting priority and vulnerable groups, and expanding the range of services provided within sustainable banking approaches can boost financial inclusion. Outreach, communication, and education efforts for sustainable finance can be easily combined with efforts to increase financial literacy and awareness. Indeed, efforts to increase broader awareness and literacy may also boost the effectiveness of awareness raising for green and sustainable finance.

Agriculture and SME finance

While SBN IDA members have implemented a number of support measures to facilitate the flow of credit to the agriculture and SME sectors, including lending to women-owned businesses, these have not been comprehensively integrated into sustainable finance frameworks. Yet efforts to expand finance to these sectors through regulatory standards or sectoral targets could leverage synergies and integration with sustainable finance. Examples include the tailored ESRM guidelines developed in Mongolia and Nigeria for the agriculture sector. Developing sector-specific guidelines in this way is more common among SBN IDA members and may indicate that the financial sectors in these countries need specific guidance to address environmental and social issues in priority sectors due to capacity constraints. Sustainable finance frameworks could also encourage banks and financial sector institutions to engage with agricultural and SME businesses to improve the sustainability of their businesses and thereby increase their capacity to receive credit.

Next steps and a toolkit for supporting sustainable finance in IDA countries

A continued need for international support

Despite the clear progress among many SBN IDA countries in developing and implementing sustainable finance frameworks, further action and additional international support are needed to de-risk markets through sustainable finance and enable green investment at scale. SBN IDA members have demonstrated innovation in designing efficient and effective approaches that respond to the realities of local institutions and promote buy-in through collaboration and stakeholder engagement. SBN IDA countries have also leveraged sustainable finance frameworks to address broader development challenges and have provided additional support, guidance, and incentives to their financial sectors to support these activities. Nevertheless, continued support is needed from the international community—and DFIs and investors in particular—to help SBN IDA countries implement sustainable finance, de-risk markets to enable greater investment flows, and strengthen financial institutions to realize new investment opportunities.

IFC has identified over $29 trillion in green and climate investment opportunities in emerging markets up to 2030, and commercial banks will play a key role in funding these opportunities, mostly through debt financing. To do so, it is estimated that banks would need to grow the share of climate-related investments in their total loan portfolios from the current 7 percent to at least 30 percent by 2030 (see Annex). To scale this line of business, both banks and banking regulators need support and guidance. Capacity building and practical tools will also be needed to assist IDA countries in developing and implementing sustainable finance frameworks. This report suggests three areas for SBN to provide future support to IDA countries.

1. **Provide targeted capacity building and technical assistance to SBN IDA members to help them develop and implement sustainable finance frameworks.** The SBN IDA Task Force could focus efforts on mobilizing and designing tailored capacity building and technical assistance to support SBN IDA members to implement the best practice solutions summarized in this report. The Task Force can also encourage SBN members to engage in peer-to-peer knowledge sharing and technical support activities.

2. **Develop additional technical resources to support SBN IDA members.** Building on the set of tools and case studies captured in this report, additional technical resources could include templates, operational guidelines, and other materials, which would enable SBN IDA members to fully benefit from international best practices and enable them to focus their efforts on tailoring the available resources to the domestic context, rather than developing tools and approaches from scratch.

3. **Targeted and in-depth research into the challenges and priorities identified by SBN IDA members.** The Task Force should conduct further research into the interrelatedness between different environmental and social challenges and the financial sector, which would help integrate activities to address these challenges into sustainable finance development.

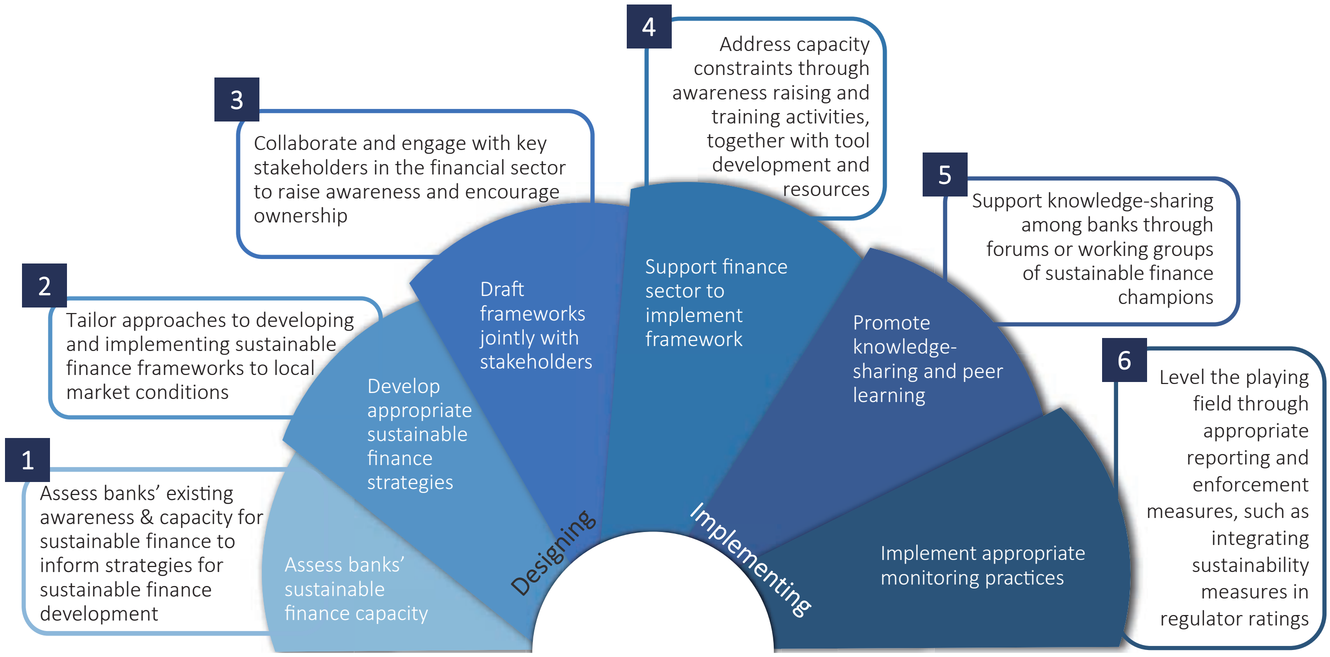
Initial tools to guide design and implementation

As a first step, the following high-level planning tools were developed based on the findings of this report and the eight associated Country Profiles (Bangladesh, Cambodia, Ghana, Kenya, Kyrgyz Republic, Mongolia, Nigeria, and Nepal). They reflect solutions and approaches tested by IDA countries to develop and implement sustainable finance frameworks.

These recommendations can be applied not only by SBN IDA countries, but also other SBN members and all emerging economies looking to develop sustainable finance frameworks and embed them in national financial systems.

Drawing on the SBN IDA country experiences, the follow six best practices emerged as being associated with effective design and implementation of a sustainable finance framework.

Figure ES1: Six best practices for developing sustainable finance in IDA countries



Source: SBN IDA Diagnostic Survey responses

The figure below provides common steps to develop and implement a national sustainable finance framework, with specific actions identified at each stage. The proposed actions can be taken in a different order depending on existing networks, institutions, drivers and priorities in place.

Figure ES2: Common stages and steps for developing and implementing sustainable finance frameworks

- Synergy with the relevant national policy/strategy (e.g., commitment to the SDGs, the Paris Agreement on Climate Change, etc.) and awareness building on sustainable finance in the public and private sectors
- Identification of a lead organization (selection of the framework development approach, e.g., regulator-driven or industry-driven) and key stakeholder mapping
- Collaboration with leading international development partners and standard setters
- Signaling the intention and determination to develop sustainable finance framework

- Seek broader support from public and private sectors, secure support and commitment from the key stakeholders
- Formation of a working group with representatives from the key stakeholders and drafting of the sustainable finance documents reflecting the country's priorities and needs
- Multi-stakeholder consultation and technical discussion, including domestic and international partners/stakeholders, to discuss and finalize the documents, potentially with public comment period

- Launch of the sustainable finance document including supporting guidelines and tools
- Information dissemination both locally and internationally

- Development and issuance of other additional documents on data collection, monitoring, and reporting, and continuous improvement of existing documents
- Gradual behavior change in the financial sector

Capacity Building

Source: *SBN IDA Diagnostic Survey responses and SBN Global Progress Report*

The following strategies have been used by IDA countries to overcome common challenges they have faced in developing sustainable finance frameworks. The relevance of the practices to a specific country depends on that country's stage in its sustainable finance journey. Figure ES 3 summarizes these practices.

Figure ES3: Best-practice solutions to overcome common challenges related to developing and implementing sustainable finance frameworks

Challenges	Solutions
• *A failure by banks to recognize the value of sustainability* and *prioritize sustainability over short-term profits*;	• *Sensitization activities within financial institutions*, to convince banks of the importance of sustainable finance and the benefits of adopting sustainable finance approaches.
• *Capacity constraints* within financial institutions that limit their engagement with and/or ability to implement sustainable finance approaches;	• *Capacity building with financial institutions,* through training of bank staff and developing additional resources to support the implementation of sustainable finance frameworks.
• *Limited national expertise* to lead and inform the sustainable finance process;	• *Knowledge sharing and peer learning*, through technical assistance within the SBN network and international exchange visits.
• *A wariness among banks of additional regulatory burdens* from aligning with sustainable financing frameworks;	• *Encouraging industry ownership of sustainable finance frameworks,* engaging with banks in the process of developing sustainable finance frameworks and, where appropriate, using a phased approach during the implementation of sustainable finance frameworks.

Source: *SBN IDA Diagnostic Survey responses*

1. Introduction

SBN member countries of all income levels continue to advance toward sustainable finance, with lower-income countries implementing ambitious roadmaps despite constrained environments.

The Sustainable Banking Network (SBN) was established in 2012 by IFC and 10 founding countries. SBN members are financial sector regulators and industry associations from emerging markets that are working toward the twin goals of i) improved environmental and social risk management by financial institutions, and ii) increased capital flows to activities with positive social and environmental impacts, including responding to climate change.

Facilitated by IFC as Secretariat, and now representing 39 countries, SBN provides a unique, global platform for knowledge sharing and capacity building focused on the needs of emerging markets. Of these 39 countries, 11 are formally classified as low-income according to the World Bank's International Development Association (IDA)[1]. They are Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, Lao PDR, Mongolia, Nepal, Nigeria, and Pakistan.

IDA countries face a range of constraints when it comes to driving sustainable finance, including weaker institutional capacity, a lack of awareness and relevant experience within banks and across the financial sector, and more urgent environmental and social risks, including poverty, climate change, and financial exclusion. The SBN Global Progress Report [2] shows that, while progress in implementing sustainable finance varies across SBN IDA countries, many countries are still making substantial headway.

Bangladesh, Kenya, Mongolia, and Nigeria were in the "Advancing" category of SBN countries according to the 2019 SBN Global Progress Report. This means they have introduced national enabling frameworks for sustainable finance—either through a regulatory or a voluntary industry approach—and that they are actively focused on implementation, including behavior change and requirements for reporting by financial institutions.

IDA countries face substantial environmental and social challenges, which are exacerbated by climate change. IDA countries are the most exposed and the least resilient to the impacts of climate change and other forms of environmental degradation, all of which threaten to exacerbate existing social and economic challenges. IDA countries are often not as well positioned than higher-income countries to address these challenges due to their limited financing capacity and lack of strong regulatory frameworks and enforcement mechanisms.

IDA countries' contributions to global greenhouse gas (GHG) emissions are not significant, yet they suffer disproportionately when it comes to damages from climate change. For example, Bangladesh and Nepal together account for less than 0.5 percent of global GHG emissions, but Nepal was one of the top five countries most affected by climate change in 2017, while Bangladesh was the 7th most impacted worldwide over the past decade.[3]

Fortunately, IDA countries understand this climate threat and are committed to action. IDA countries—and the IDA-eligible members of SBN in particular—are keenly aware of the need for climate action as well as the opportunities to develop financial markets and attract the investment needed to manage climate risks and take action. This has translated into a strong commitment to climate action from many IDA countries, by incorporating sustainability into their national and economic development agendas, focusing on sustainability alongside financial sector and market development, which has resulted in the integration of sustainable finance into overall financial market development strategies in many countries.

Many IDA countries have also established ambitious nationally determined contributions (NDCs) to the Paris Agreement on

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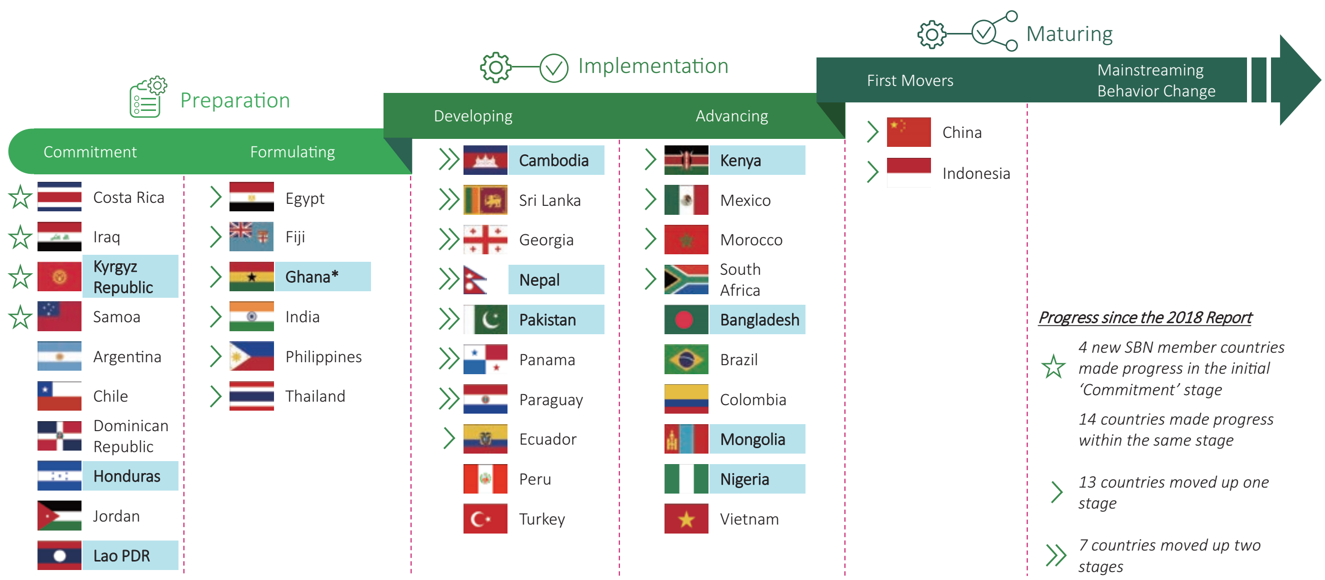
[1] The International Development Association (IDA) is the part of the World Bank that helps the world's poorest countries. If a country's Gross National Income per capita is below the IDA threshold then it is classified as an 'IDA country'. For more information please visit: http://ida.worldbank.org/about/borrowing-countries

[2] The SBN Global Progress Report measures countries' progress toward developing and deepening sustainable financial systems. In the 2019 Global Report, using a measurement framework agreed by all members, SBN countries are assessed according to three pillars of essential practices as well as three typical development stages of national sustainable finance frameworks (preparation, implementation, and maturing), with each stage consisting of two sub-stages. The stage mapping is based on qualitative defining features related to (i) progress on national policies, guidelines, and principles, and (ii) industry uptake, with an ultimate goal of behavior change among financial institutions in mainstreaming sustainability and climate change targets.

[3] Germanwatch Climate Risk Index. 2019.: https://germanwatch.org/en/16046

Climate Change, and these present significant climate investment opportunities. For example, Kenya pledges to reduce its GHG emissions by 30 percent from business-as-usual levels by 2030, and Nigeria committed a reduction of 30 percent unconditional and 45 percent conditional on international support. IFC estimates that climate investment opportunities in these two countries are $81 billion and $104 billion, respectively, from 2016 to 2030.[4] Achieving these goals will require robust sustainable finance frameworks.

Figure 1: A number of IDA countries are among the more advanced SBN members, though many are still at earlier stages in developing sustainable financial systems



Note: *Blue shading indicates SBN IDA country members.*
Ghana, Philippines, and Thailand have established their national sustainable banking/finance frameworks since the SBN 2019 Global Progress Report was published. Please refer to the Ghana Country Profile for its country progress. For Philippines and Thailand, the progress will be reflected in later reports.

Source: *SBN 2019 Global Progress Report*

This landmark report provides the first investigation into the specific experiences of IDA countries as they implement sustainable finance frameworks and captures lessons that can assist other IDA countries and SBN members more broadly. Despite the progress of leading SBN IDA countries, the particular challenges faced by IDA countries were raised by members as an important theme to be explored. With this in mind, the SBN IDA Task Force was launched in May 2018. Building on SBN's comprehensive Global Progress Reports in 2018 and 2019, one of the first actions of the IDA Task Force was to conduct a deeper diagnostic study to identify specific challenges, opportunities, and needs among the SBN IDA member countries. A diagnostic survey was conducted in 2019,[5] together with interviews with leading SBN IDA countries. Examples of good practices and innovation were also collected.

The objectives of the research were to understand:

- the approach IDA countries have taken in developing and implementing sustainable finance frameworks,
- the challenges they have faced,
- their solutions to overcoming these, and
- the ways in which IDA countries have or could leverage sustainable finance frameworks to address related environmental and social themes.

The report is structured as follows:

- **Chapter 2 presents core findings from the IDA Diagnostic Assessment.** The Diagnostic analyzes the common barriers to and drivers of the development of sustainable finance policies in SBN IDA countries. The chapter also presents synthesis analysis for key issues, challenges, and responses across all SBN IDA countries. Individual Country Profile reports are included in a separate Addendum.

[4] IFC. 2016. Climate Investment Opportunity Report.: https://www.ifc.org/wps/wcm/connect/59260145-ec2e-40de-97e6-3aa78b82b3c9/3503-IFC-Climate_Investment_Opportunity-Report-Dec-FINAL.pdf?MOD=AJPERES&CVID=lBLd6Xq

[5] Eight countries responded to this survey: Bangladesh, Cambodia, Ghana, Kenya, the Kyrgyz Republic, Mongolia, Nigeria, and Nepal.

- **Chapter 3 explores best practices in addressing key priorities,** including an exploration of how countries can address critical issues when developing their sustainable finance frameworks, as well as how they can support or boost sustainability within specific areas and pursue broader development goals within the process of developing sustainable financial systems.
- **Chapter 4 concludes with recommendations for next steps and a practical toolkit.** Drawing on countries' experiences, the section provides an overview of ways in which SBN members, the SBN IDA Task Force, and the broader community of development finance institutions (DFIs) can support SBN IDA country members in their efforts to develop sustainable financial systems and enable increased investment flows to sectors and projects that are green, climate-friendly, and socially inclusive. In addition, it includes several practical self-assessment and planning tools to support not only SBN IDA countries, but also other SBN members and all emerging economies looking to develop sustainable finance systems while also addressing broader environmental and social issues.

2. Findings from the IDA Diagnostic Assessment

This chapter presents a synthesis from the SBN IDA Diagnostic to assess common barriers and drivers in developing sustainable banking policies in IDA countries, including:

- An examination of the **drivers of action** among countries working toward sustainable banking policies;
- An exploration of experiences **developing sustainable financial systems** in those countries that are more advanced;
- A comparison of **future priorities** as countries continue to develop sustainable finance systems; and
- An assessment of how countries view linkages between sustainable finance frameworks and **broader developments within financial systems**.

Table 1: Summary of SBN IDA countries' progress to date in developing and embedding sustainable financial systems

Country (alphabetical)	Stage	Year joined	Summary of progress to date
Bangladesh	Advancing	2012	• 2011 – Bangladesh Bank issued Policy Guidelines on Green Banking • 2017 – Guidelines on Environmental and Social Risk Management, green finance initiatives and progress toward green bond issuance
Cambodia	Developing	2016	• 2016 – Association of Banks in Cambodia committed to developing sustainable finance principles • 2018 – The Association of Banks in Cambodia released the Cambodian Sustainable Principles, supported with Implementation Guidelines • 2019 – 45 banks adopted Cambodian Sustainable Finance Initiative
Ghana	Developing*	2016	• 2015 – Sustainable Banking Committee to develop sustainable banking principles for the banking sector • 2017 – First draft of Sustainable Banking Principles published • 2019 – Sustainable Banking Principles and Sector Guidance Notes
Honduras	Commitment	2015	• 2015 – Commitment to develop sustainable finance initiative
Kenya	Advancing	2015	• 2015 – Kenya Bankers Association launched the Sustainable Finance Initiative Guiding Principles • 2018 & 2019 – Listing Rules for Green Bonds & Green Bond Guidelines • 2019 – Issuance of its first green bond
Kyrgyz Republic	Commitment	2018	• 2018 – Union of Banks working group established to develop sustainable finance principles, harmonize financial system with international compliance standards
Lao PDR	Commitment	2012	• 2018 – Green Growth Strategy launched
Mongolia	Advancing	2012	• 2014 – Mongolian Bankers Association launched Mongolian Sustainable Finance Principles and additional sector guidelines • 2017 – Mongolian Sustainable Finance Association established • 2018 – National Sustainable Finance Roadmap launched • 2019 – Mongolia Green Taxonomy published
Nepal	Developing	2014	• 2018 – National Rastra Bank issued ESRM guidelines
Nigeria	Advancing	2012	• 2012 – Central Bank of Nigeria issued Sustainable Banking Principles • 2017 – Nigeria became the first African country to issue a green bond • 2018 – Nigerian Sustainable Finance roadmap published
Pakistan	Developing	2015	• 2017 – State Bank of Pakistan issued Green Banking Guidelines • State Bank of Pakistan has a financing scheme for renewable energy

Note: *Bank of Ghana issued its Sustainable Banking Principles in November 2019, after the launch of the SBN 2019 Global Progress Report.*

Source: *SBN IDA Diagnostic Survey responses*

What factors spurred SBN IDA countries to develop national sustainable finance policies and principles?

- A **supportive policy environment** has been the most prominent driver of action, and the **active engagement of policy makers** is also important.
- Recognition of **critical environmental and social challenges** has been a key driver of progress.
- A **coordinated voluntary approach** and demonstration effects from **peer experiences** have been important drivers in IDA countries where sustainable finance implementation is led by a banking association.

Strong national commitments have been a key driver for action to develop sustainable finance systems among SBN IDA countries. As shown in Figure 2, a range of different factors have spurred SBN IDA countries to start working toward more sustainable finance systems, including policy and regulatory drivers, collaborative drivers, market-based drivers, and learning drivers.

Figure 2: Policy environment was most often considered an important factor for sustainable finance development, followed by having a coordinated voluntary approach, and environmental and social challenges

	High	Medium	Low	N/A
Policy environment: National commitments to the Sustainable Development Goals (SDGs), Paris Agreement on Climate Change, or a National Sustainable Development Policy	● ● ● ● ● ●		●	●
Policymaker and/or regulator engagement: National guidelines or regulatory requirements to better-manage environmental and social (E&S) risks in the financial sector, improving financial stability	● ● ●	●	● ●	● ●
Coordinated voluntary approach: Initiative taken by local financial institutions to adopt international good practices in sustainable finance and level the playing field	● ● ● ●	●		● ● ●
Market incentives: Opportunity to increase competitiveness and resilience of the financial sector through innovation in green and socially inclusive finance	● ●	● ● ●	● ●	●
Environmental and social challenges: E&S risk exposure that fosters participation of financial institutions to address the E&S risks at the country level	● ● ● ●	●	● ●	●
Peer experience: Demonstration effect of countries that have adopted a sustainable finance roadmap	●	● ● ● ●	●	● ●

Source: SBN IDA Diagnostic Survey responses

SBN IDA members were most likely to consider a supportive policy environment an important driver of sustainable finance. A supportive policy environment such as commitments to the SDGs, the Paris Agreement on Climate Change, or a national sustainable development policy was cited as a highly important driver in six of the eight countries. However, the establishment of new national guidelines or regulatory rules has not been as crucial as the policy environment in driving action.

All SBN IDA countries with 'advancing' sustainable finance systems have relied on supportive policy environments to drive progress, but they were also more likely to highlight the role of multiple factors in supporting action. Countries categorized as 'advancing' in their sustainable finance journey according to the SBN Global Progress Reports were more likely to note a greater number of high importance drivers across different domains (policy, voluntary, market), which suggests that a broad range of factors has provided an impetus for developing sustainable finance systems in these countries. In many SBN IDA countries, a recognition of critical environmental and social challenges, both climate-related and beyond, has been a key driver of progress.

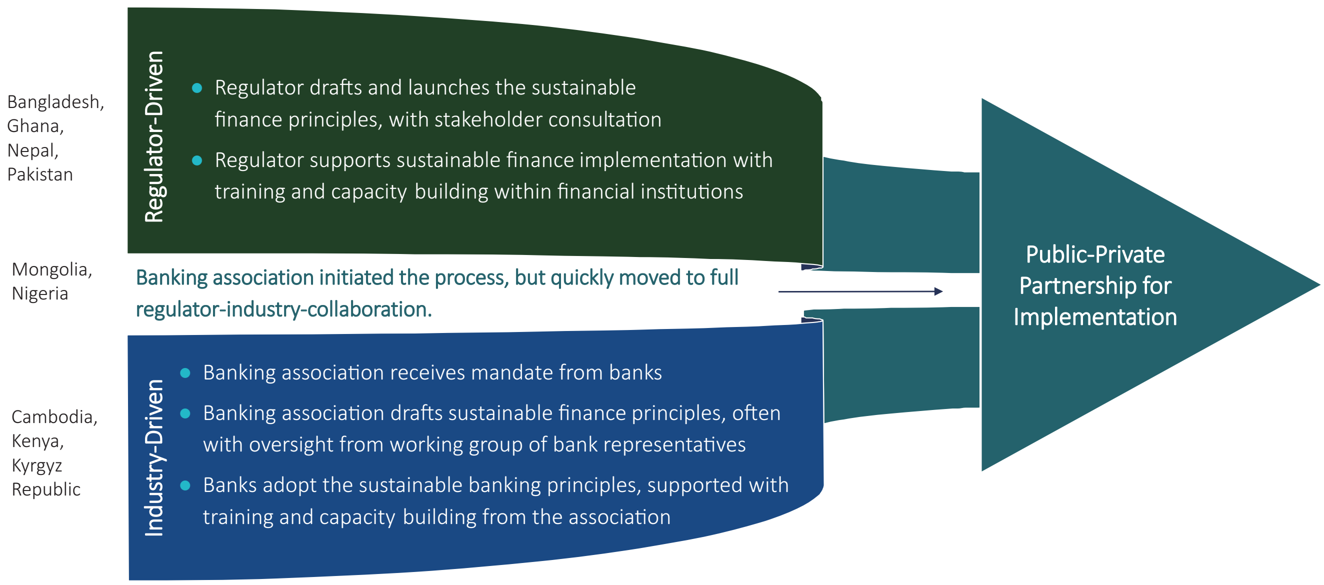
In SBN IDA countries where sustainable finance implementation is led by a banking association rather than by a regulatory body or a central bank, the experiences of peers in other countries have been an important driver of action. The differences between the industry-driven approach and the regulator-driven approach is reflected in other drivers as well: SBN IDA banking association members were more likely to highlight the importance of a coordinated voluntary approach among domestic financial institutions, while SBN IDA banking regulator members were more likely to highlight the role of policy maker engagement.

What processes have SBN IDA countries gone through to develop frameworks to promote sustainable finance, and what have they learned along the way?

- As with other SBN countries, there have typically been two paths taken by SBN IDA countries to develop sustainable finance frameworks: **regulator-driven and industry-driven**.
- Despite different paths, SBN IDA members have faced **strikingly similar challenges** on their journeys, such as: capacity constraints and limited national expertise, which restrict policy action; and financial institutions that prioritize short-term profits and are wary of additional regulatory burdens.
- However, countries have **responded creatively** to overcome these challenges.

Countries have taken different routes to develop and implement national sustainable finance frameworks—each pathway presents opportunities and challenges. Efforts to develop national enabling frameworks for sustainable finance are typically initiated by either the regulator or banking association. Nevertheless, over time there tends to be a convergence toward public-private partnership. Successful approaches are characterized by extensive engagement and collaboration among multiple stakeholder groups.

Figure 3: IDA countries have typically followed one of two pathways to sustainable finance development



Source: SBN IDA Diagnostic Survey responses

Under regulator-driven approaches, drafting and launching the sustainable finance principles has been driven by central policy actors, supported by consultation and engagement with financial sector stakeholders. The regulator has also supported banks' implementation of sustainable finance principles through capacity building and enforcement activities.

Under the industry-driven pathway, the trigger for sustainable finance development has typically originated in the banking association. Although coordinated by the banking association, the drafting and launch of sustainable finance principles in these countries has required extensive engagement with domestic financial institutions and regulators. The adoption and implementation of sustainable finance principles is voluntary, industry-driven, and gradual.

While countries typically follow one path, there is also often significant 'cross-path collaboration' between regulators, the government, the banking association, and domestic financial institutions. As shown in Figure 4, countries following one path also draw on and build support among a broad set of national actors to help support progress.

Figure 4: SBN IDA countries are at different stages of their journeys to developing and embedding sustainable financial systems

	Country	Trigger	Engage	Launch	Refine
Regulator -Driven	Nepal	Nepal Rastra Bank joins SBN (2014)	Nepal Rastra Bank announces plans to develop environmental and social risk manual (2017)	Nepal Rastra Bank issues ESRM Guidelines (2018)	
	Bangladesh	Growing awareness of Bangladesh's vulnerability to climate change (2009)	Sustainable banking becomes a central issue for Bangladesh Bank (2010)	Bangladesh Bank launches banking guidelines, Environmental Risk Management Framework (2011)	Guidelines extended to other institutions (2013), ERM guidelines widened to include social risk (2017)
	Pakistan	Sustainable banking recognized as key to developing reliable and renewable energy	Green Banking Guidelines developed and launched (2017)		
	Ghana	Sustainable Banking Committee for Ghana created (2015)	Draft Sustainable Banking Principles developed and discussed with stakeholders (2017-18)		
Initiated by Industry then rapidly moved to Regulator-Industry Collaboration	Nigeria	International partners organize Sustainable Finance Week to raise awareness (2011)	Bankers Committee develops and adopts Banking Principles and guidelines (2012)	Nigeria issues first green sovereign bond (2017)	Banking Principles extended to the financial sector (2016), sustainable finance roadmap published (2018)
	Mongolia	Trade and Development Bank, develops ESMS with FMO support (2012)	Trade and Development Bank, Mongolian Bankers Association, partners convene forum (2013)	Sustainable Finance Principles launched (2014)	Mongolian Sustainable Finance Association established (2017), Roadmap published (2018)
Industry-Driven	Cambodia	Association of Banks in Cambodia announces intention to develop sustainable finance (2016)	Association of Banks in Cambodia establishes Sustainable Finance Committee (2017)	Sustainable Finance Committee drafts policy, adopted by banks (2019)	
	Kyrgyz Republic	Union of Banks of Kyrgyzstan joins the SBN, signalling intention to develop sustainable finance (2018)	Union of Banks of Kyrgyzstan establishes a working group (2018)		
	Kenya	Kenyan Bankers Association convenes a forum, leads to the Sustainable Finance Initiative (2013)	Kenyan Bankers Association forms a working group (2013)	Kenyan Bankers Association drafts and launches Guiding Principles (2015)	Kenyan Bankers Association supports reporting of Guidelines, plans to issue green bond (2019)

Source: *SBN IDA Diagnostic Survey responses and SBN Global Progress Report*

SBN IDA countries have faced common challenges in their sustainable finance journeys, including:

- *Capacity constraints* within financial institutions that limit their engagement with and/or ability to implement sustainable finance approaches;
- *Limited national expertise* to lead and inform the sustainable finance process;
- *A failure by banks to recognize the value of sustainability* and *prioritize sustainability over short-term profits*;
- *A wariness among banks of additional regulatory burdens* from aligning with sustainable financing frameworks.

However, SBN IDA countries have responded to these common challenges with a range of different solutions, as shown in Figure 5.

Figure 5: Common challenges and solutions across SBN IDA countries

Challenges	Solutions
Capacity constraints within banks to implement sustainable finance	Extensive training, including workshops and train-the-trainer sessions
	Development of E-learning platform for sensitization and training
	Knowledge sharing meetings to share challenges, solutions, and best practices
	Development of additional guidelines, templates, and taxonomies
Limited national expertise to lead the sustainable finance process	Utilize the support of international partners
	International exchange visits
Banks often prioritize profits over sustainability	Engagement with banks to persuade them of sustainable finance benefits
	Demonstration of commitment among key stakeholders
	Encourage ownership among the banks through significant engagement
	Create awards for banks to incentivize strong performance
Banks are wary of additional regulatory burden	Implement sustainable finance gradually to support internal capacity building

Source: SBN IDA Diagnostic Survey responses

Capacity constraints within banks to implement sustainable finance were noted as the primary factor limiting the speed and depth of sustainable finance implementation. To overcome this challenge, SBN IDA members have offered extensive training of bank staff, both in person and online. SBN IDA members have also developed resources to support banks to implement sustainable finance principles. For example, they have provided templates and additional guidelines for key sectors such as agriculture, construction, manufacturing, and mining.

Where national expertise is limited, some countries have benefited from the support of international partners or international exchange visits. Knowledge sharing topics include capacity building, policy documents and toolkits, reporting, monitoring and evaluation of sustainable finance performance, and green bond development.

SBN IDA countries have also found that banks inadequately prioritize sustainable finance issues. SBN IDA members address this with sensitization activities to convince banks of the importance of sustainability and the potential benefits of sustainable finance to banks' financial performance. Some SBN IDA countries have also provided additional incentives to reward strong performance, for example through annual sustainability awards to celebrate excellence.

SBN IDA countries have also found domestic financial institutions can be concerned that sustainable finance places undue burdens on them and disadvantages them relative to international banks. The capacity-building activities described above can help overcome this challenge. There has also been an emphasis on gradual implementation. Shared experience from leading international sustainable financial institutions, such as banks that have adopted the Equator Principles, can also help reduce such concerns.

What are SBN IDA countries' priorities as they continue to develop their sustainable financial systems?

- SBN IDA members' top priorities for future action are **promoting green finance,** such as green bonds and green loans, **developing sustainable finance roadmaps,** and **supporting implementation.**
- Key ongoing challenges include **creating a supportive enabling environment** and **capacity building,** as well as **developing specific regulations or tools.**

The diagnostic assessment confirmed six key areas for future action, though three of them are particularly high priorities for SBN IDA countries. As shown in Figure 6, developing green finance opportunities, creating a roadmap for sustainable finance, and developing supporting tools and resources emerged as key priorities.

Figure 6: Six priorities for future action identified by SBN IDA countries

Priority area	Description	High priority for
Green finance opportunities	Support green finance flows, such as green bond issuance	Bangladesh, Cambodia, Ghana, Kenya, Mongolia, Nigeria
Sustainable finance roadmap	Create overarching framework to incentivize green finance flows	Bangladesh, Ghana, Mongolia, Nepal
Tools and resources	Develop implementation tools, such as sector guidelines	Cambodia, Kenya, Mongolia, Nigeria
Extend sustainable finance to other financial subsectors	Embedding sustainable finance beyond banking sector, e.g., capital markets	Cambodia, Ghana, Mongolia
Increase engagement with regulator	Increase engagement with the regulator to support enforcement	Cambodia, Mongolia
Encourage reporting of sustainable finance progress	Support banks to report on progress, without overly burdening them	Kenya, Nigeria

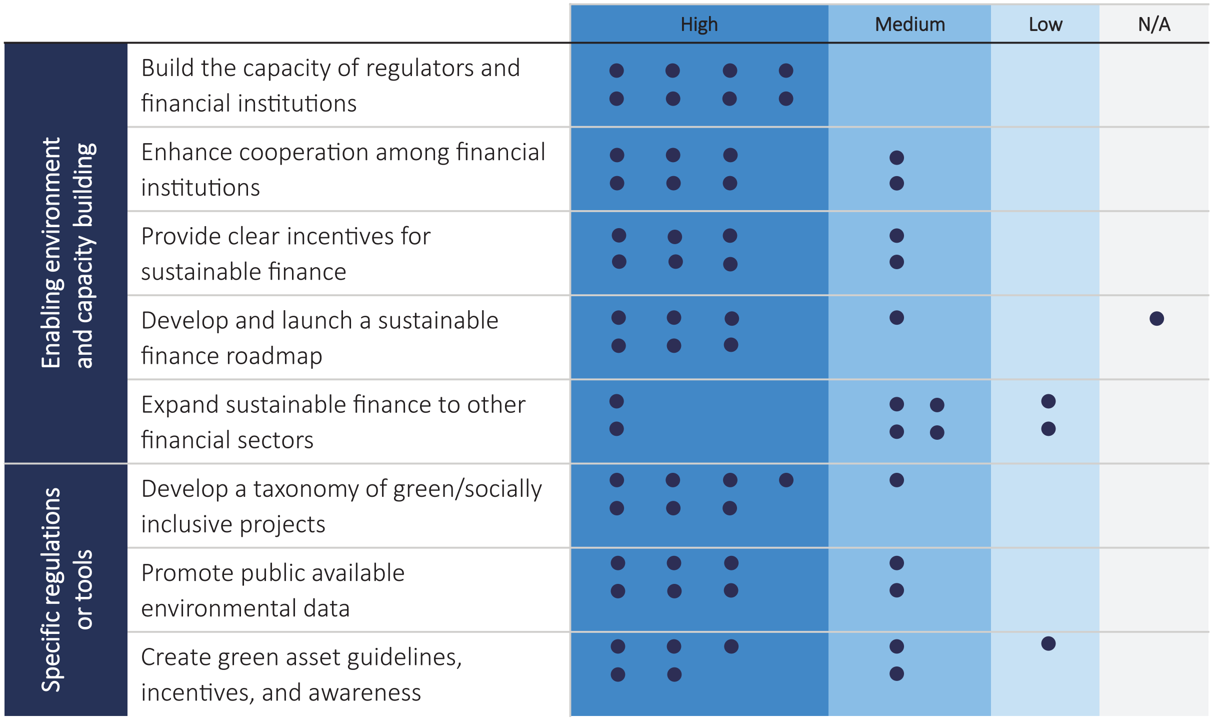
Note: *Darker shading indicates action areas that are higher priority for more countries*

Source: *SBN IDA Diagnostic Survey responses*

The development of green-finance opportunities was identified as a priority for 75 percent of surveyed SBN IDA countries, while drafting and implementing sustainable finance roadmaps remains a key priority for SBN IDA countries. While a variety of financing mechanisms exist, SBN IDA members most commonly identified green bond issuance as a priority. These comprehensive financial sector strategies aim to accelerate sustainable finance sector development and unlock the necessary investment to achieve national sustainable development and climate commitments. Sustainable finance roadmaps were identified as a priority for Bangladesh, Ghana, Mongolia, and Nepal. Developing additional tools and resources to support banks' implementation of sustainable finance frameworks remains an ongoing priority for SBN IDA members. Continuing to develop additional tools and resources was identified as a priority in four of the countries analyzed: Cambodia, Kenya, Mongolia, and Nigeria.

Looking to the future, SBN IDA members continue to face two overarching challenges in sustainable finance development: creating a supportive enabling environment and capacity building, as well as developing specific regulations or tools. As shown in Figure 7, these broad issues include a number of further challenges faced by SBN IDA members.

Figure 7: A number of ongoing challenges limit the depth and speed of development and implementation of frameworks to support sustainable finance



Source: SBN IDA Diagnostic Survey responses

The critical and ongoing challenge, noted by all SBN IDA members, is building the capacity of regulators and financial institutions. This challenge is part of the broader issue of developing a supportive enabling environment and capacity building. Additional related challenges include providing clear incentives and improving cooperation between financial sector players in order to efficiently promote sustainable finance. A further related challenge is developing and launching sustainable finance roadmaps to accelerate sustainable finance sector development and unlock investment for sustainable development. These multi-stakeholder strategies contribute to a supportive enabling environment by defining an ambitious vision and coordinating action across financial sector players. Similarly, expanding sustainable finance to non-banking institutions is key to achieving a coordinated approach to sector-wide transformation.

Countries also highlight the challenge of developing specific regulations or tools to support financial institutions. For example, developing a catalog or taxonomy of green and socially inclusive projects that meet eligibility criteria for green finance facilitates financial institutions to pursue green investments. A similar challenge is the development of green bond or other green-asset guidelines, incentives, and awareness raising.

What are the links between SBN IDA countries' sustainable finance frameworks and their broader ambitions?

- Countries' ambitions for financial sector development are broader than the sustainable finance agenda, including **financial inclusion, SME finance,** and **agricultural finance**.
- Sustainable finance is sometimes included as a pillar within financial inclusion, while financial inclusion, SME finance, and lending to women are often seen as essential components in sustainable finance frameworks in IDA countries.
- These linkages offer opportunities to cross-fertilize and leverage good practices for more sustainable economic development.

SBN IDA countries have a number of key areas of concern related to financial sector development. As summarized in Figure 8, the most prominent areas of concern (identified by all eight countries as of high importance) were financial inclusion and agricultural finance. Other significant areas were fintech/digital finance, SME finance, environmental and social risk management, and long-term financing. Countries that are more advanced on their journey toward sustainable financial systems were more likely to prioritize climate and green finance. Banking association SBN IDA members were more likely to note long-term financing and SME finance as high priority issues.

Figure 8: Key areas of concern related to financial sector development

		High	Medium	Low	N/A
Cross-cutting issues	Financial inclusion	●●●●●●●●			
	FinTech/digital finance	●●●●●●●	●		
	Long term financing	●●●●●	●●	●	
	Environmental and social risk management	●●●●●	●		●●
Sectoral financial areas	Agricultural finance	●●●●●●●●			
	SME finance	●●●●●●	●●		
	Climate and green finance	●●●●	●●●	●	
	Disaster risk finance, disaster/weather insurance	●	●●●●	●●	●

Source: SBN IDA Diagnostic Survey responses

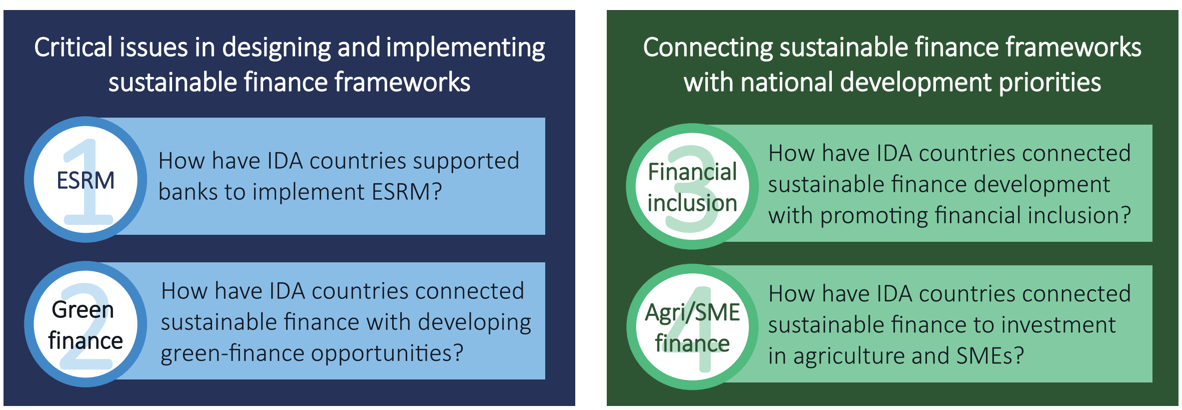
3. Good Practices in Addressing Key Priorities

The Diagnostic identified a number of areas where IDA countries have demonstrated strong progress in implementing sustainable finance frameworks, and areas where sustainable finance has connected with broader development ambitions. This section explores four key themes across these two areas that were identified as being of high priority to SBN IDA members. The discussion of these themes draws on examples of good practices to showcase the experiences of strongly performing countries and to support knowledge sharing among the SBN community. The four key themes, which are summarized in Figure 9, explore best practices within sustainable finance frameworks as well as areas where more could be done across two key pillars:

- How can countries best address critical issues when developing sustainable finance frameworks?
- How can countries support or boost sustainability within specific areas and pursue broader development goals in the context of developing sustainable finance systems?

Countries' past experiences in these areas offer instructive lessons for other IDA countries and the SBN community. By drawing on countries' practical experiences in key issues, others can benefit from the approaches that have already been tested and demonstrated. In addition to the examples presented in this chapter, please see the country case study Annex for additional details on SBN IDA member efforts under each of the four key themes.

Figure 9: Four key themes in sustainable finance frameworks of SBN IDA member countries



Source: *SBN IDA Diagnostic Survey responses*

3.1 Pathways to developing ESRM

Environmental and Social Risk Management (ESRM) is a core component of sustainable finance development and has been comprehensively integrated into sustainable finance frameworks in SBN IDA countries

IDA countries view ESRM as a valuable tool for addressing environmental and social challenges

SBN IDA members are aware of the importance of environmental and social risk management in banks and financial institutions as a tool for increasing resilience. IDA countries are particularly vulnerable to environmental and social (E&S) risks due to their greater dependence on natural resources for economic growth and their weaker regulator capacity to enforce E&S regulation. Encouraging banks to implement ESRM can catalyze greater management of E&S risk across the private sector, thereby reducing the risk exposure of the financial sector, the broader economy, society, and the environment.

Effective ESRM is necessary to reduce banks' exposure to E&S risk, ensuring the overall sustainability of financial institutions. If clients or investees do not effectively manage the E&S risks associated with their operations, the repercussions can threaten their long-term financial and operational viability, which in turn can pose risks to the bank. To reduce exposure to the E&S risks associated with clients' activities, banks and financial institutions need to proactively identify, assess, and manage E&S risks. A prominent method for implementing ESRM is through developing and implementing an Environmental and Social Management System (ESMS), which is the set of policies, procedure, tools, and internal capacity that equips banks and other financial institutions to integrate E&S risk into their core business processes. For example, environmental and social due diligence procedures can allow banks to understand potential E&S risks from the outset.

ESRM is a core element of sustainable finance frameworks in IDA countries

SBN members in IDA countries recognize the importance of ESRM as a core component of sustainable financial systems. SBN IDA members have supported banks to develop ESMSs and to incorporate E&S risk into their broader risk management frameworks by setting policies, providing guidance, and offering support for implementation of ESRM, as summarized in Figure 10. Given the centrality of ESRM to sustainable finance development, most SBN IDA members have been active in this space.

Figure 10: SBN IDA members have developed ESRM guidelines and supported their implementation by banks

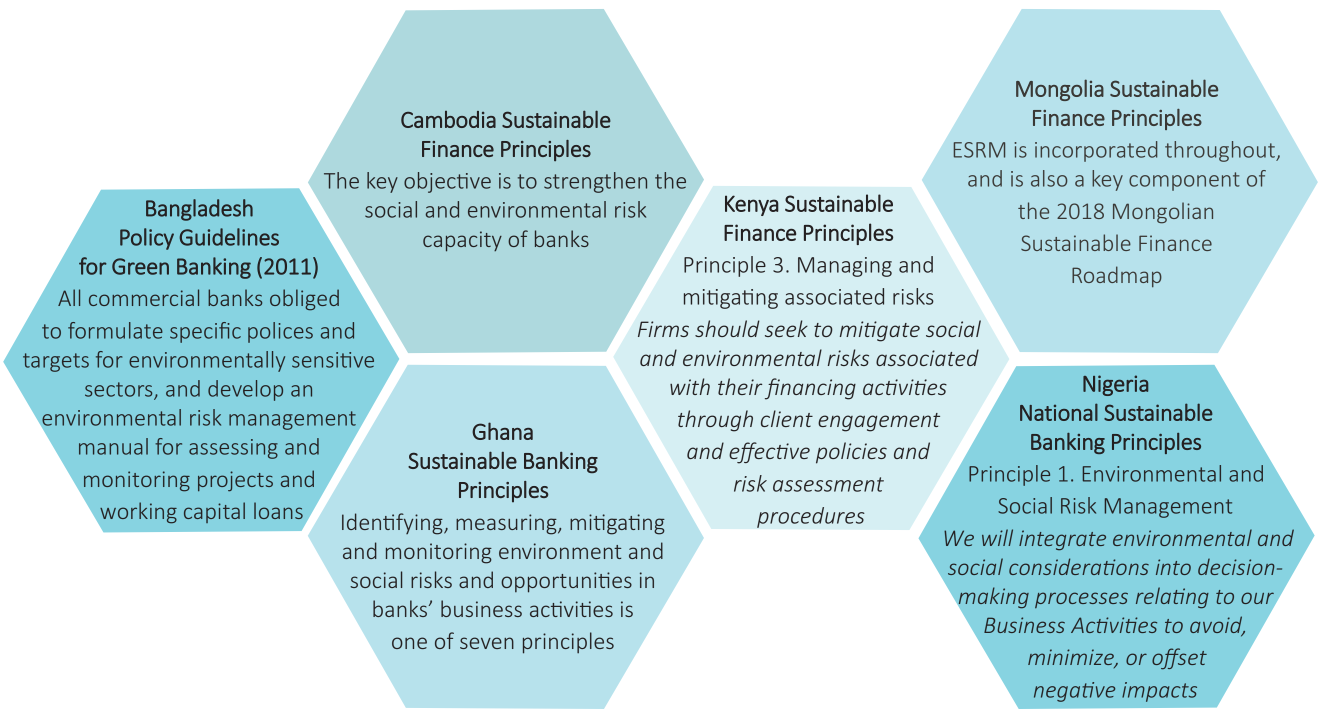
	Action	Objective	Examples from SBN members
Policies/ guidelines	Incorporate ESRM into sustainable finance framework	Require participating banks to develop and implement ESMSs	Bangladesh, Cambodia, Ghana, Kenya, Mongolia, Nigeria
	Develop standalone ESRM guidelines	Comprehensive approach to encourage ESRM in banks	Bangladesh, Ghana, Nepal
Implementation support	Tools, templates and resources for ESRM	Provide resources to support ESRM implementation in banks	Bangladesh, Mongolia, Nepal
	Monitoring and enforcing ESRM implementation	Encourage compliance with ESRM guidelines	Bangladesh, Nigeria

Source: SBN IDA Diagnostic Survey responses

ESRM has become a critical component of many of the broader sustainable finance principles, policies, and guidelines SBN IDA members have developed. SBN IDA members have integrated ESRM into their sustainable finance frameworks to a greater or lesser extent, as summarized in Figure 11. The inclusion of ESRM as a component in these frameworks obliges banks to develop and implement ESMSs. For example:

1. The 2015 Sustainable Finance Initiative Guiding Principles in **Kenya** require financial institutions to establish an ESMS, review and categorize E&S risk as part of the credit appraisal process, and develop an internal system to monitor commercial clients' associated risks over time.
2. The 2014 **Mongolian** Sustainable Finance Principles require banks to screen and categorize projects according to their level of E&S risk and conduct sector-based portfolio reviews and monitor and report on their clients' E&S management in priority sectors (agriculture, construction, manufacturing, and mining).
3. The 2012 **Nigerian** Sustainable Banking Principles require financial institutions to develop an ESMS, including customized E&S due diligence procedures and client E&S performance monitoring.

Figure 11: Leading SBN IDA members have closely integrated ESRM into sustainable finance priorities and frameworks



Source: SBN IDA Diagnostic Survey responses

Leading SBN IDA members have also developed standalone ESRM guidelines. These can be in addition to a broader sustainable finance policy or framework, or as a first step on the journey to sustainable finance development. For example, in Bangladesh the ESRM Guidelines are additional to the 2011 Green Banking Guidelines (Bangladesh Bank, 2017). These 2017 Guidelines provide a comprehensive framework to encourage and assist financial institutions in implementing ESMSs. The Guidelines specify the roles and responsibilities of bank officials, E&S due diligence procedures, integrating E&S management through covenants into legal documents, and developing action plans for E&S management.

SBN IDA members have developed additional tools and resources to support ESRM implementation

To support the implementation of ESRM by banks, SBN IDA members have developed additional tools and resources. While diverse, these tools include support to banks for:

- *Developing tailored ESMS* – for example, the Mongolian Bankers Association has developed an E&S Policy Framework Template to assist financial institutions in designing their own ESMSs.
- *Assessing E&S risk* – Bangladesh Bank's 2017 ESRM Guidelines were accompanied by a spreadsheet-based E&S due diligence risk assessment tool, which includes a set of criteria and generates E&S risk ratings for bankers. Similarly, the Nepal ESRM Guideline contains general and sector-specific checklists and sector-wide lists of permits and licenses to support financial institutions assessment of E&S risk. This appears to be a focus area for other SBN members, for example the Mongolian Sustainable Finance Roadmap calls on the Mongolian Bankers Association and the Mongolian Sustainable Finance Association to develop further resources, such as subsector checklists and guidelines, detailed and operational guidance, a climate risk assessment tool, and environmental stress testing guidelines and tools.
- *Building internal capacity to implement ESMSs* – across SBN IDA members, ESRM has been accompanied by significant sensitization and capacity-building activities. For example, the Mongolian Bankers Association implemented comprehensive training tailored to specific roles in banks to support the implementation of ESRM and an accompanying online learning tool, and developed a sustainable finance university curriculum for bachelors and masters students.

In developing frameworks, tools, and other resources, SBN IDA members have benefited substantially from resources developed by international partners and their support. For example, to support banks' implementation of ESRM, the Kenya Bankers Association drew heavily from the IFC Sustainability Framework, methodologies, and tools. IFC also supported the Kenya Bankers Association by implementing a series of training for banks.

A number of IDA countries have demonstrated strong approaches to support implementation and monitoring of ESRM. Bangladesh Bank monitors the share of transactions with high E&S risk for each bank or financial institution, as well as the actions taken by boards for these transactions. It has developed a monitoring and evaluation tool that generates sustainability ratings for each bank, where ESRM in lending is one of the four sustainability parameters. The perception that more advanced countries require regulatory enforcement to ensure comprehensive ESRM implementation by all banks is apparent in the Mongolian Sustainable Finance Roadmap, which calls for greater regulatory involvement in and enforcement of ESRM.

Keys lessons for developing and promoting ESRM guidance for banks

SBN IDA countries' experiences suggest three key lessons for other IDA countries when developing and promoting ESRM guidance:

1. **Draw on international resources and experience**: Organizations such as IFC provide Sustainability Framework, methodologies, and tools to support the development of ESRMs by banks.
2. **Stakeholder engagement can help create a policy that is adapted and accepted**: Extensive stakeholder engagement can help assess the level of understanding among banks that will be asked to implement these policies and inform how the policy should be presented and what might be required to implement it. Stakeholder engagement also presents the chance to explain why the ESRM policy is important and build stakeholder buy-in.
3. **Building an ESRM policy over time enables stakeholders to adapt progressively**: Incrementally creating and broadening the scope of ESRM can provide the opportunity to start implementing parts of ESRM early on, allowing time for stakeholders to adapt and policy makers to build on and refine the policy.

Case Studies

- Case Study 1: Bangladesh - Awareness raising, capacity building, monitoring, and enforcement to ensure regulator-driven ESRM implementation
- Case Study 2: Kenya - Straightforward and voluntary reporting to promote industry-driven ESRM implementation

3.2 Promoting green finance

Accelerating access to green finance is a key driver for the development of sustainable financial systems, particularly by facilitating green investments and unlocking sources of green capital

Green finance, which includes climate finance, was classified as a high priority for the development of the financial sector by four SBN IDA members, and as a medium priority by three members. Additionally, the policy environment pushing countries to meet their climate goals has been an important driver for developing sustainable finance frameworks. National commitments to the SDGs, the Paris Agreement, or a national sustainable development policy was listed as a highly important driver by six of eight SBN IDA countries. No other factor was listed as highly important by as many members.

Overarching sustainable finance frameworks can create the structures necessary to develop innovative approaches to promote green finance instruments. Sustainable finance has come to be understood as an umbrella term for a combination of risk management and new product innovation that takes environmental, social, and governance considerations into account. Green finance is more specifically understood as investments or lending that also seek positive environmental outcomes, such as addressing greenhouse gas emissions, tackling pollution, minimizing waste, or improving efficiency in the use of natural resources. ESRM is understood as a fundamental component in sustainable finance. It is also becoming increasingly important in green finance. Indeed, measures such as ESRM frameworks can help make green projects more attractive financially by taking into account costs to society that are often ignored in traditional finance risk assessments. Both terms should be understood as intersecting and evolving. In SBN IDA countries, the lack of knowledge about green projects has been mentioned by stakeholders as a limit to investment in these areas.

Some SBN IDA countries have already started developing green finance tools, while other countries see it as a highly important future priority. The countries most advanced in their sustainable finance frameworks have tended to be the most advanced in terms of green finance as well. Notably, Nigeria has issued both corporate and government green bonds; Kenya issued its first green bond in 2019 and introduced a withholding tax exemption on green bonds; and Bangladesh has developed green project definitions and linked climate funds to its sustainable banking framework. The development of definitions or 'taxonomies' for green projects has been cited as a high priority for seven of eight countries surveyed, while developing green bonds and other green assets is also cited as a high priority for five of eight countries, and a medium priority for an additional two countries.

Developing green project definitions

A key barrier to green finance disbursement is the lack of a clear definition of what is 'green.' There is a wide array of definitions of what constitutes green finance, which can reduce transparency for investors, hamper the selection of assets for green products, or encourage greenwashing. The latter refers to classifying an investment as environmentally friendly because it includes a small component of green activity, while the main investment in fact does not meet basic environmental standards or even is environmentally hazardous. An example would be providing finance to a firm that logs from unsustainably managed forests because it purchased some energy efficient tools for its activities.

Green project definitions or green taxonomies can help deliver a clear understanding of green activities and investments. Taxonomies are classifications of sectors, projects, technologies, and assets that are eligible to be considered 'green.' Developing such definitions involves several challenges. It can often be difficult to distinguish between green and not green, or to account for local differences without diluting the meaning of 'green.' An example is evaluating the appropriateness of hydropower, which is a renewable energy that in some circumstances can be damaging to biodiversity.

- **Broader taxonomies provide more flexibility but less standardization.** Broader taxonomies will generally provide an overview of eligible sectors, technologies, or activities. This makes it possible to adapt the definition of what is green to specific actors or locations. However, this entails additional work and requires a deeper understanding of what exactly constitutes a green project. This creates the possibility of financing projects that have a minimal green component with higher monetary returns instead of 'greener' projects with a greater positive impact on the environment.

- **Detailed taxonomies are easier to use but may be somewhat rigid and so unable to keep up with innovation.** Detailed green project definitions will generally have several levels of qualifications, ranging from the eligible sector to a particular product within the sector, for example. This facilitates the evaluation and eligibility of a project. It also allows for different stakeholders using the taxonomy to have clear language when talking about 'green' projects and limits misunderstandings. However, keeping detailed taxonomies up to date can be difficult, time consuming, and costly.

Green taxonomies are a priority for all SBN IDA members surveyed, and three countries have already developed national taxonomies. As mentioned above, seven of eight SBN IDA members ranked the development of a taxonomy as a high priority and one member ranked it as a medium priority. This demonstrates the importance of creating such a taxonomy. Kenya embedded the green taxonomy as part of its green bond issuance process, while Bangladesh and Mongolia created stand-alone (sector-wide) green taxonomies specifically to help direct green funds.

Promoting green bonds

SBN countries, including SBN IDA members, are increasingly focusing on green bonds as a means to achieve their SDG goals and their NDCs. It is often the case that green projects are not seen as profitable, in part because their environmental and social benefits are not accounted for. However, achieving the different SDGs requires large amounts of financing that national public funds cannot cover on their own, so private finance and international finance will need to be mobilized. Countries within the SBN framework such as China, India, and Morocco, as well as SBN IDA countries such as Nigeria, have issued green bonds.

Green bonds can help countries by providing targeted finance. Green bonds are fixed-income instruments with one distinguishing feature: Proceeds are earmarked exclusively for projects with environmental benefits (Sustainable Banking Network, 2018). These relate to climate change mitigation or adaptation/resilience, or other environmental issues such as natural resources depletion, loss of biodiversity, and air, water, or soil. Green bonds provide benefits for both issuers and investors, and hence are an attractive financing tool. They can also help issuers diversify their investor base, as well as generate reputational benefits for issuers.

As a result, green bonds are a top priority for five of the eight SBN IDA members surveyed. Mongolia, Kenya, Bangladesh, Nepal, and the Kyrgyz Republic all cited the development of green bonds and other green asset guidelines, incentives, and awareness raising as a high priority. Nigeria, which has already issued green bonds, and Ghana indicated it was a medium priority; Cambodia put its priority as low. Ghana, Bangladesh, and Kenya explicitly mentioned green bonds in their next steps. In 2019, Kenya issued its first green bond, and in 2020, Bangladesh Bank, jointly with IFC, published a report to assess the potential for a domestic green bond market in Bangladesh.[1]

Nigeria and Kenya are the most advanced in the development of green bonds among SBN IDA members. Both countries have issued green bond guidelines—Nigeria in 2017 and Kenya in 2019. Nigeria issued its first green bond at the end of 2017 and Kenya in 2019.[2]

[1] Bangladesh Bank & IFC. 2019. Green Bonds Development in Bangladesh: A Market Landscape: https://www.bb.org.bd/pub/special/greenbond_dec19.pdf
[2] CBI. 2019. First Green Bond from Kenya: Acorn USD40m - Climate Bonds Certified, financing green buildings: https://www.climatebonds.net/2019/10/first-green-bond-kenya-acorn-usd40m-climate-bonds-certified-financing-green-buildings

Keys lessons for promoting green finance:

SBN IDA countries' experiences suggest three key lessons for other IDA countries when promoting green finance:

1. **Plan for broad stakeholder engagement to help create well-tailored policies, definitions, and standards:** Extensive stakeholder engagement can help gauge the level of understanding among banks about green projects and green finance issues. This context is critical to pitching tools such as project definitions at the right level and providing insight on how they should be presented and what will be required to implement them.

2. **Support banks with additional guidance to build capacity:** Providing resources and time to support banks' implementation of green finance policies can increase the uptake and effectiveness of such policies.

3. **Draw on international support and resources where possible**: Organizations including IFC, the Climate Bonds Initiative, and the UN Environment Programme can provide support to develop green bond guidelines and green taxonomies, including a template to adapt to each national environment.

Case Studies

- Case Study 3: Bangladesh - Broader definitions and tailored processes to promote green projects
- Case Study 4: Kenya - Building on international taxonomies to accelerate national green bond development
- Case Study 5: Kenya – Broad stakeholder engagement to empower the issuance of green bonds
- Case Study 6: Mongolia – Leveraging a sustainable finance framework to unlock green finance opportunities
- Case Study 7: Nigeria - Issuing sovereign and corporate green bonds to finance NDCs

3.3 Financial inclusion

Facing greater urgency to address poverty, SBN IDA members have integrated financial inclusion into sustainable finance frameworks. They have also adopted a range of approaches to support action on financial inclusion, though progress in linking the delivery of these two agendas is still at an early stage

Financial inclusion is highly relevant to sustainable finance development in IDA countries

Financial inclusion is critical to reducing poverty and boosting prosperity. Households with access to practical, affordable, and sustainable financial products and services can better manage their risk and are thus more likely to invest in business and professional growth. According to the Alliance for Financial Inclusion (AFI, 2019), important aspects of financial inclusion are:

- *savings* – savings accounts enable the poor to manage their finances when faced with seasonal incomes, smoothing consumption and facilitating investment;
- *credit* – access to credit enables the poor to invest in goods with high upfront costs, this can include working capital such as high-quality agricultural inputs;
- *insurance* – insurance improves household resilience to unexpected shocks and can provide the poor with security to make investment and production choices that increase productivity.

The benefits of financial inclusion are well-documented and are incorporated extensively into the SDGs, which underscores the importance of financial inclusion to sustainable finance development.

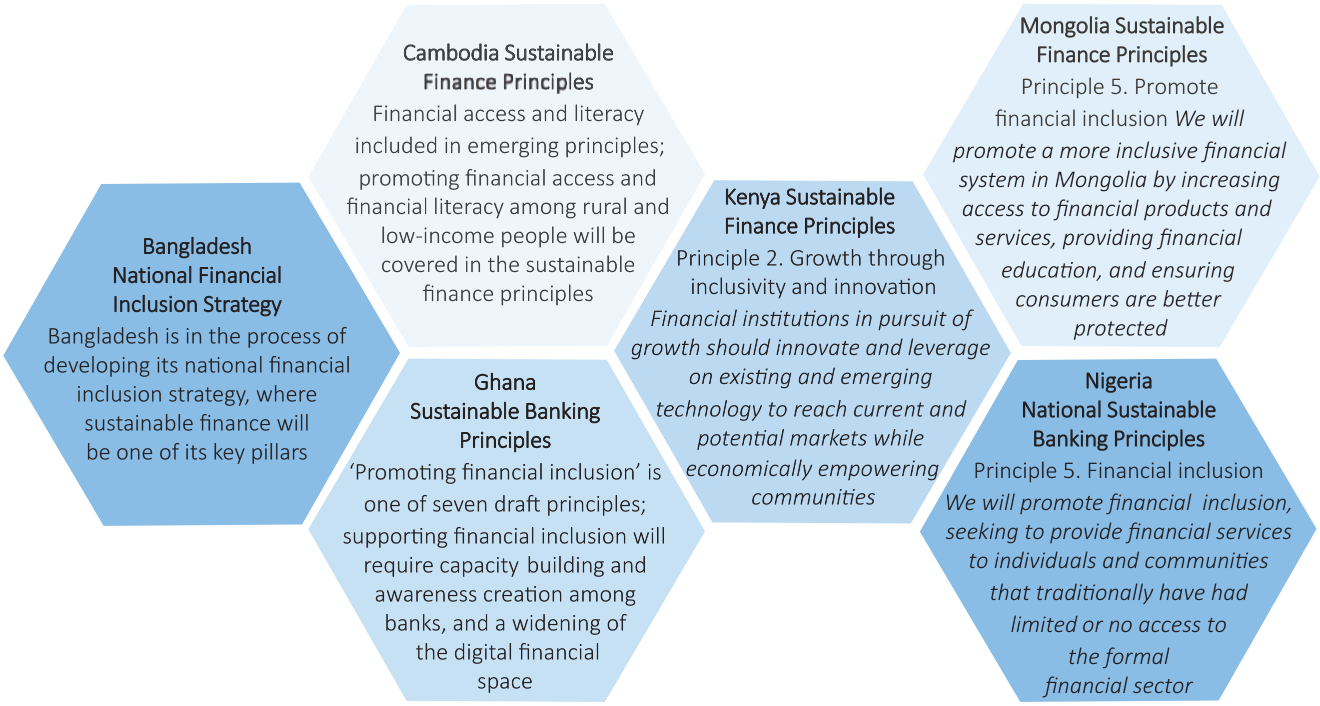
Financial exclusion is more prominent in IDA countries. In 2017, only 35 percent of adults in IDA countries held an account at a financial institution (World Bank Group, 2017). Barriers to financial inclusion in IDA countries are both demand- and supply-driven. On the demand side, financial awareness and literacy is often low, and IDA or informal sector workers feel that they have limited need for formal financial services. On the supply side, consumers may be unable to access financial services due to geographical distance from banking services, inability to afford mainstream financial services, and the unsuitability of financial products to their needs (such as bank accounts that require a large initial deposit).

Financial inclusion is essential for building climate resilience and adaptation. There is significant overlap between the financially excluded and those most vulnerable to climate change. Financial inclusion enables these populations to invest in climate-friendly technologies, as well as adaptation and resilience measures. Financial inclusion can also improve household resilience to shocks caused by climate-induced disasters. For example, index insurance has been used to protect smallholder farmers against adverse weather conditions.

Financial inclusion has been implemented as a component within sustainable finance frameworks

Many SBN IDA members have recognized the importance of financial inclusion in delivering sustainable financial sector development, and so have prioritized it within their sustainable finance frameworks. As Figure 8 in the previous section shows, all SBN IDA survey responses highlighted financial inclusion as an area of high importance. In line with this, financial inclusion has been identified as a critical component of sustainable finance frameworks in SBN IDA countries, as Figure 12 shows. In principle, integrating financial inclusion into sustainable finance frameworks obliges banks to address the needs of underserved groups, and it can be leveraged to address many social challenges in IDA countries.

Figure 12: Leading SBN IDA members have closely integrated financial inclusion into sustainable finance frameworks



Source: SBN IDA Diagnostic Survey responses

SBN IDA members have sought to address financial exclusion through both 'demand-side' and 'supply-side' approaches; this could be better integrated within sustainable finance frameworks

While many SBN IDA countries have identified and created strong connections between sustainable finance and financial inclusion in principle, the practical integration of the two agendas has been more limited. Many SBN IDA countries have implemented strong agendas and practices to promote financial inclusion, and it has often been identified as a key component of sustainable finance principles. However, most countries have not yet been able to implement measures—such as incorporating financial inclusion elements within ESRM systems —that deliver both sustainable finance systems and financial inclusion.

However, leading SBN IDA countries offer several examples of approaches and best practices to financial inclusion that could be integrated alongside sustainable finance system development. Typically, countries' approaches to financial inclusion have included 'supply-side' activities that promote greater expansion of financial services among providers, and 'demand-side' activities that promote greater demand and uptake among consumers, as summarized in Figure 13.

Figure 13: Demand- and supply-side actions have been implemented by SBN members to drive financial inclusion

	Action	Objective	Examples from SBN members
Supply	Facilitate inclusive banking services	Support mobile, electronic and agent banking	Bangladesh, Ghana, Kenya, Mongolia, Nigeria
Supply	Targeted actions for improving accessibility of banking services	Ensure marginalized groups are able to access banking services	Kenya, Mongolia
Supply	Mandating banks to expand access	Direct banks to provide access to underserved customers	Bangladesh
Demand	Awareness raising and financial literacy	Increase understanding of and demand for financial services	Bangladesh, Ghana, Mongolia, Nigeria
Demand	Financial awareness among children and youth	Equip youth with core skills for engaging with the sector	Bangladesh, Mongolia, Nigeria
Demand	Improve consumer protection	Increase confidence in the financial sector	Bangladesh, Ghana, Nigeria

Source: SBN IDA Diagnostic Survey responses

Supply-side approaches to addressing financial exclusion

Several SBN IDA countries have facilitated the expansion of inclusive banking services through supply-side regulatory action that is aligned with or could be integrated into a broader sustainable finance roadmap. For regulator SBN members, action on financial inclusion has involved developing regulatory frameworks to support the rollout of supply-side support. Bangladesh Bank introduced mobile financial services in 2011 and agent banking in 2013 to facilitate financial services to unserved and underserved populations (Bangladesh Bank, 2018b).[3] It also has taken steps to facilitate electronic money transfer and online banking. The Central Bank of Nigeria is creating a supportive regulatory environment for financial inclusion, for example through developing frameworks for agent banking, tiered know-your-customer requirements, and mobile money operations (Central Bank of Nigeria, 2018).[4] Non-regulator SBN members have also had an important role. For example, in 2017 the Kenya Bankers Association launched PesaLink, an interbank money transfer solution. Such shared financial infrastructure lowers the cost of small transactions for banks and provides a platform for fintech innovation, supporting the expansion of mobile banking.

[3] Agent Banking means providing limited scale banking and financial services to the underserved population through engaged agents under a valid agency agreement, rather than a teller/cashier.

[4] Tiered know-your-customer requirements is a policy to make it easier for those without formal means of identification to access financial services, particularly in the informal sector.

SBN IDA countries have also worked to identify specific underserved groups and support banks to make services more accessible to them. The Kenya Bankers Association determined that women are financially excluded in Kenya, particularly in their use of financial products. In response, it worked with the central bank to collect data to better monitor the issue. It has also worked to sensitize banks about gender awareness issues and encourage them to design financial products with women in mind. The Mongolian Bankers Association has worked to make financial services more accessible to disabled people through engagement with financial institutions. For example, it has encouraged banks to ensure ATMs and websites are accessible to visually impaired people, in addition to training bank staff to better support customers with disabilities.

Many of these regulatory supply-side practices could be incorporated into broader sustainable finance activities and could be supported by aligned demand-side action. SBN IDA countries have demonstrated a range of activities that could be delivered alongside regulatory or policy action within sustainable financial systems to increase the impact and scope of financial inclusion efforts.

Demand-side approaches to addressing financial exclusion

SBN IDA countries have developed information and communication strategies in order to increase awareness of the benefits of formal financial services and improve financial literacy. Bangladesh Bank has developed a dynamic and interactive web portal to educate consumers about financial services. It has also used traditional media—newspaper, television, and radio—to spread financial awareness. Furthermore, Bangladesh Bank has instructed commercial banks to publicize financial literacy and awareness, for example on ATM booths billboards, checkbooks, deposit slips, and other bank publications (Bangladesh Bank, 2018b). Similarly, the Mongolian Bankers Association collaborates with the Bank of Mongolia to run the annual financial awareness campaign, Global Money Week. During this campaign, financial education materials are distributed and there is a financial education talk show and social media contest.

Some SBN IDA members have also focused on raising financial awareness among children and youth. Bangladesh Bank has instructed banks to offer school children and working or street children specific financial products, and is working with the Ministry of Education to integrate financial literacy into the school curriculum (Bangladesh Bank, 2018b). Similarly, the Central Bank of Nigeria has launched a National Financial Literacy Strategy to incorporate financial literacy into the school curriculum (Central Bank of Nigeria, 2018). Bank of Mongolia has also developed university courses, high school curriculums, and comic books about financial literacy, with tools such as a savings-and-loan calculator (Bank of Mongolia, 2018).

Strong systems of consumer protection are necessary to increase trust in the financial system and improve demand for financial services. Bangladesh Bank has set up a dedicated department to address customer complaints and issued comprehensive guidelines for customer services and complaint management in banks. Consumer protection is also integral to Nigeria's National Financial Inclusion Strategy.

Keys lessons for improving financial inclusion

While sustainable finance frameworks so far have been largely untapped to support financial inclusion, SBN IDA countries' experiences suggest two lessons for IDA countries looking to improve financial inclusion:

1. **Regulators and banking associations can integrate supply-side measures alongside sustainable finance mandates to boost support for financial inclusion.** These include mandates and support for expanding access, targeting key priority and vulnerable groups, and expanding the range of services provided within sustainable banking approaches.

2. **Outreach, communication, and education efforts for sustainable finance can be combined with efforts to increase financial literacy and awareness.** Indeed, efforts to increase awareness and literacy may boost the effectiveness of awareness raising for green and sustainable finance.

Case Studies

- Case Study 8: Bangladesh – A three-pronged approach to policies, low-cost refinancing, and knowledge support
- Case Study 9: Nigeria – Establishing economic links between smallholder farmers and large-scale agricultural processes
- Case Study 10: Nigeria – Promoting financial inclusion through agent banking, mobile banking and payments, linkage models, and client empowerment
- Case Study 11: Collective Experiences – Leveraging sustainable finance frameworks to address social issues

3.4 Agriculture and SME finance

SBN IDA members have implemented a number of approaches to facilitate the flow of credit to, and improved the sustainability of, the agriculture and SME sectors, but these sectors have not yet been directly integrated into broader sustainable finance frameworks

Improving access to financial services for agricultural and SME businesses, including for investment in climate-friendly technologies, is highly relevant to sustainable finance development in IDA countries

Scaling up agricultural and small and medium enterprise finance is key to eradicating extreme poverty and boosting shared prosperity in IDA countries. In IDA countries, finance for the agriculture and SME sectors is needed to support long-term investment and technology dissemination, which will increase productivity and achieve sectoral growth. Financial sector institutions in IDA countries lend a disproportionately lower share of their loan portfolios to these sectors compared to their share of GDP. This inadequate access to finance restricts the ability of these sectors to contribute to both the economy (through value addition and employment) and society (through nutrition and climate resilience). According to World Bank research (World Bank Group, 2016), the key market failures that constrain the growth and deepening of these finance markets include

- *High transaction costs to reach potential customers* – in IDA countries, agricultural and small businesses are typically dispersed, and business owners lack financial awareness or literacy, which makes it challenging for financial institutions to engage with potential customers; and
- *Inadequate resources for risk management* – agriculture and small businesses are inherently risky, and financial institutions lack the understanding and tools to appropriately manage these risks; there are also issues with the covariance of production, market, and price risks.

Improving access to financial services for agriculture and SME sectors has not been made an explicit component of sustainable finance frameworks in IDA countries

Increasing credit to the agriculture and SME sectors has been a key priority for SBN IDA members but improving the sustainability of these sectors has not received as much focus. SBN IDA members highlighted agriculture and SME finance as areas of high importance. However, these topics have mostly not been explicitly integrated into sustainable finance policies, frameworks or principles, and improving their sustainable performance or the flow of climate finance to these sectors has not been a priority.[5]

SBN IDA members have implemented several approaches to improving the accessibility of financial services for the agriculture and SME sectors, and this Assessment proposes how these could be integrated within sustainable finance frameworks

Increasing finance to the agriculture and SME sectors is important for delivering sustainable financial sector development. SBN IDA members have implemented a number of activities to support agriculture and SME finance. As Figure 14 shows, these activities can be grouped into three categories: directly increasing finance to these sectors, intervening in market failures that constrain credit to these sectors, and investing in programs to support entrepreneurship. While these efforts have largely not been framed within broader sustainable finance efforts, they demonstrate clear potential for IDA countries to integrate these into sustainable financing frameworks and regulatory policies in the future. Some suggestions for doing this are provided throughout the chapter.

[5] The exception to this is if agriculture or SME finance falls within financial inclusion, as is the case for with the Kenyan Sustainable Banking Principles.

Figure 14: SBN IDA members have implemented various policies and programs to support agriculture and SME finance that have close synergies with or are broadly supportive of sustainable finance frameworks

	Action	Objective	Examples from SBN members
Expand finance	Set minimum targets for investment for banks	Increase the flow of credit through mandating bank loans	Bangladesh, Ghana, Nepal, Nigeria
	Implement credit schemes and funds	Provide subsidized loans to agriculture and SMEs	Nigeria
Address market failure	Refinancing facilities for eligible loans	Increase incentives for banks to lend to agriculture and SMEs	Bangladesh
	Risk sharing systems for agricultural loans	Reduce banks' exposure to production and market risks	Ghana, Nigeria
	Develop key finance infrastructure	Facilitate the flow of credit	Ghana, Kenya, Mongolia, Nigeria
Programmatic approach	Entrepreneurship programs	Equip SMEs to grow their business and access finance	Kenya
	Collaboration with international partners	Benefit from support in improving access to finance	Bangladesh, Nepal

Source: SBN IDA Diagnostic Survey responses

Expanding finance

SBN members have taken steps to ensure that affordable credit is being provided to the agriculture and SME sectors. This has taken two forms: (1) setting minimum targets for the disbursement of loans and (2) directly providing affordable credit.

Several SBN IDA members have encouraged or mandated that banks disburse affordable credit to agriculture and SMEs. SBN IDA members have set minimum targets for disbursement of loans to the agriculture and SME sectors, for example:

- The long-running Agricultural and Rural Credit Policy in **Bangladesh** sets an annual target for disbursement of farm credit, which is proportioned between subsectors (for example, 60 percent to the crop sector and 10 percent for fisheries) and across banks. There is also an annual interest rate cap for loans to the agricultural sector, set at 9 percent in 2018/19. Since 2010, banks in Bangladesh have also set annual loan disbursement targets for SMEs, with special priority given to female entrepreneurs (Bangladesh Bank, 2018a).
- The **Nepal** Rastra Bank directs commercial banks to allocate a set proportion of total credit to priority sectors. In 2018/19 banks were instructed to extend at least 10 percent of their total credit to the agriculture sector and at least 15 percent to the energy and tourism sectors. Banks and financial institutions were also encouraged to provide credit to SMEs (Nepal Rastra Bank, 2018b).
- In 2017 the Bankers' Committee in **Nigeria** voluntarily established the Agri-business/Small and Medium Enterprises Investment Scheme. This requires banks to set aside 10 percent of their annual Profit After Tax as equity investment for SMEs in the agriculture and manufacturing sectors, a fund that is dispersed through the Central Bank of Nigeria.

The Central Bank of Nigeria has implemented several strategies to provide affordable finance to the SME and agriculture sectors. These include the Agricultural Credit Support Scheme with low-interest loans for farmers; the Commercial Agricultural Credit Scheme with loan subsidies for agricultural enterprises; and the MSME Development Fund that provides grants, capacity building and low-interest loans, among other benefits.

Addressing market failures

SBN IDA members have also taken steps to address the market failures that have limited private sector interest in the sector. These activities have included: (1) the provision of refinancing facilities with subsidized credit to commercial banks for loans for a specific purpose or set of products; (2) the development of risk-sharing facilities; and (3) financial infrastructure development.

Refinancing facilities have been used by SBN IDA members to encourage the availability of affordable credit to both the agriculture/SME sectors and green investments. Low-cost refinancing makes agricultural or SME investments attractive and profitable for formal financial institutions. According to the World Bank (World Bank Bank Group, 2016), such schemes by SBN IDA members include the following:

- Agriculture: Bangladesh Bank provides a refinancing facility under government guarantee for banks participating in the Agricultural and Rural Credit Policy and Program, with special refinancing schemes for sharecroppers, dairy farmers, and those in the jute industry.
- SMEs: Bangladesh Bank has provided refinancing facilities to encourage banks and financial institutions to provide low-cost funding to SMEs through the Refinancing Scheme for Agro-based Product Processing Industry; Refinancing Scheme for Small Enterprises; Refinancing Fund for New Entrepreneurs in Cottage, Micro and Small Industry; and the Refinancing Fund against Islamic Shariah-based Financing.
- Green: Bangladesh Bank has used refinancing facilities to promote low-carbon technologies, providing subsidized credit for solar energy, biogas, and waste treatment projects.
- Green: State Bank of Pakistan has introduced a refinancing scheme that provides funds to commercial banks to offer subsidized loans for renewable energy projects generating up to 50 megawatts.
- Green: Nepal Rastra Bank offers refinancing facilities for banks to provide subsidized loans (from $1,700 to $2,700) for consumers to purchase a range of green technologies, from solar home systems to solar cookers, dryers, and water pumps, biogas installations, clean cookstoves, and electric rickshaws.

SBN IDA members have launched risk-sharing systems to encourage bank loans to the agriculture sector. The perception of the agriculture sector as highly vulnerable to production and market fluctuations is a significant contributing factor that constrains agricultural finance. Through risk-sharing schemes, some of the risk is transferred to the government or central bank, which incentivizes greater private sector investment. The Bank of Ghana launched the Ghana Incentive-based Risk Sharing System for Agricultural Lending (GIRSAL) in 2014, a vehicle for leveraging financial institutions' lending to agriculture. With six pillars, including a risk-sharing fund initially funded with seed capital from the Bank of Ghana, the GIRSAL aims to change banks' perceptions of the riskiness of agricultural loans (Bank of Ghana, 2015). In its design, the Bank of Ghana drew heavily on the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL), which was set up by the Central Bank of Nigeria in 2013. The NIRSAL mitigates risks to encourage agricultural loans with a $300 million risk-sharing facility that it uses to share losses on agricultural loans through credit risk guarantees. The Central Bank of Nigeria also manages two credit guarantee schemes: the long-running Agricultural Credit Guarantee Scheme and the Small and Medium Enterprises Credit Guarantee Scheme.

SBN IDA members have supported key infrastructure developments to facilitate loan disbursements. One key infrastructure development involves moveable collateral registries, which enable firms to leverage moveable assets such as inventory, crops, and equipment to access finance. These registries can remove a significant barrier to farmers accessing capital. The Bank of Ghana, the Kenya Bankers Association, the Mongolian Bankers Association and the Central Bank of Nigeria are examples of SBN members that have worked with partners to launch an electronic centralized registry for moveable collateral. A second key infrastructure development has been credit registries, which consolidate information on borrowers (such as their total number of current loans, repayment history, or previous bankruptcies) and make this available to other potential lenders. This reduces the information asymmetry between the borrower and the credit provider, enabling banks to make a more informed risk assessment. Credit information sharing has been supported strongly by SBN IDA members; for example the Bank of Ghana maintains the credit reference bureau system and the Kenya Bankers Association worked with the Central Bank of Kenya to implement the Credit Information Sharing Initiative.

Developing programmatic approaches

SBN IDA members have sought to improve access to the agriculture and SME sectors by engaging with beneficiaries, either directly or in collaboration with international partners.

SBN IDA members have engaged directly with potential beneficiaries to expand access to the SME sector, in particular through entrepreneurship programs. These activities provide SMEs with the skills they require to expand their businesses and apply for credit from banks. Bangladesh Bank obliges banks and financial institutions to provide banking and business advisory services, and in particular to offer dedicated help desks for female entrepreneurs. Similarly, the Kenya Bankers Association sponsors two entrepreneurship programs that offer training and loans to small businesses. One of them targets young people from informal settlements, making the program also a financial inclusion effort.

SBN IDA members have collaborated with international partners to increase finance to the SME and agriculture sectors. For example, Bangladesh Bank has partnered with international partners such as JICA and ADB to deliver the Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project; the Northwest Crop Diversification Project; the Second Crop Diversification Project; the Marginal and Small Farm Systems Crop Intensification Project; the Financial Sector Project for the

Development of SME Fund, and the Urban Building Safety Project. Similarly, the Nepal Rastra Bank jointly implemented Access to Finance with the UN Capital Development Fund, which aimed to help financial institutions more effectively serve agriculture value chain actors with appropriate financial products.

Keys lessons for integrating SME and agricultural finance into sustainable finance frameworks

SBN IDA countries' experiences suggest three lessons for other IDA countries looking to support agriculture and SME finance within sustainable finance frameworks:

- **Regulators can set minimum investment targets or targeted credit schemes to promote green activities within the agriculture and SME sectors.** For example, countries can preferentially support more environmentally friendly technologies and approaches. It may be particularly effective to focus on lending to improve the sustainability of sectors; encourage banks to identify opportunities for expanding their lending to the agriculture or SME sectors; ensure banks manage and monitor their lending portfolios to the agriculture and SME sectors, and include this as part of their sustainable finance reporting requirements.
- **Countries can leverage sustainable finance initiatives to upgrade key systems and implement initiatives to support financing to key sectors.** In particular, refinancing schemes and risk sharing approaches to enable commercial loans can boost the flow of finance to agriculture and SMEs.
- **Countries can look to integrate sustainability into traditional support approaches for SMEs.** For example, by including support for green businesses and sustainability for entrepreneurs.

Case Studies

- Case Study 12: Bangladesh – Agricultural and rural credit policy to promote finance to the agricultural sector
- Case Study 13: Nigeria – The Central Bank of Nigeria expands finance to the agriculture and SME sectors through development finance operations
- Case Study 14: Collective Experiences – Proposed approaches to expanding agriculture and SME financing via sustainable finance frameworks
- Case Study 15: Collective Experiences – Proposed approaches to addressing market failures via sustainable finance frameworks
- Case Study 16: Collective Experiences – Proposed approaches to integrating program-style activities into sustainable finance frameworks

4. Next Steps and Tools for Supporting Sustainable Finance in IDA Countries

The development of sustainable finance frameworks has proved to be a crucial tool for empowering banks and other financial institutions to address environmental and social challenges, to de-risk investments, and to create new green and inclusive investment opportunities in IDA countries. In IDA countries, sustainable finance frameworks have the potential to.

- Enable banks to implement Environmental and Social Risk Management (ESRM) so that they can comprehensively monitor the risks associated with their lending portfolios and encourage their clients to address these risks;
- Direct domestic and international finance flows to environmental and social priorities;
- Extend financial inclusion by delivering financial services to households; and
- Boost financial flows to priority sectors that have been neglected by the financial sector, including agriculture and small businesses.

By harnessing the power of the financial sector, sustainable finance frameworks have transformative potential to address environmental and social challenges while enabling crucial climate investment in IDA countries. These countries, which have historically been perceived as risky for investment or lending, view sustainable finance frameworks as mechanisms to address market weaknesses, boost the development of key finance sectors, and more closely adhere to international best practices and meet investor expectations.

For example, green bond market development can be a vehicle to boost the development of domestic debt markets. Such actions can help reorient the financial system to manage key challenges while also enabling increased international and domestic investment. Thus, for many IDA countries, sustainable finance is less a choice than an imperative, one that can help them keep pace with other countries now working to retrofit sustainability into their more mature financial sectors. Yet IDA countries may have an advantage over more developed countries in this regard: with no legacy systems to hold them back, they are well positioned to build sustainability into the core of their financial systems, and by doing so attract international capital that is increasingly seeking positive environmental and social impacts.

Next steps for supporting sustainable finance in IDA countries

Despite clear progress among many IDA countries and examples of good practices in developing and implementing sustainable finance frameworks, further action and additional international support are needed to de-risk investment and unlock green finance at scale. In order to realize the benefits of integrating sustainability into financial systems and unlocking new climate investment opportunities, IDA countries need to continue to push for progress. At the same time, increased support is needed from the international community to deliver these benefits.

This IDA Diagnostic Assessment has demonstrated that leading countries have been able to overcome challenges to develop strong and sophisticated sustainable finance frameworks, but they face additional challenges in implementing these frameworks. IDA countries have faced a number of additional or enhanced challenges compared to more mature SBN members: notably, low awareness of sustainable finance issues, constrained capacity to implement change, and limited expertise or resources to develop comprehensive frameworks and support their implementation. However, despite these challenges, leading IDA-eligible SBN member countries have championed sustainable finance development, driven by supportive policy environments and recognition of the critical environmental and social issues that IDA countries are particularly vulnerable to.

SBN IDA countries have successfully leveraged sustainable finance frameworks to address broader environmental and social challenges and SBN IDA members have provided additional support, guidance, and incentives to the financial sector to assist these activities. The extent to which environmental and social challenges have been integrated into sustainable finance frameworks vary: ESRM has been a core component of sustainable finance frameworks, whereas finance to agricultural and small businesses has typically been considered a separate priority. Comprehensively integrating these challenges and the financial sector response into sustainable finance frameworks facilitates a holistic approach to tackling these challenges and enables synergies to be exploited. The current linking of these issues at a policy level indicates the appetite and potential for greater alignment of these topics in IDA countries.

The ambition to develop sustainable finance frameworks in IDA countries presents an opportunity for SBN IDA countries to become global leaders in integrating sustainability into financial systems and open up new investment flows. To help achieve this ambition, international actors—including the SBN IDA Task Force, DFIs, and investors—can support SBN IDA countries by extending the ongoing work on capacity building and tools to assist countries to develop and implement sustainable finance frameworks.

The experiences of SBN IDA countries suggest that SBN members, the SBN IDA Task Force, and the broader SBN network can provide invaluable support in assisting SBN IDA members develop sustainable finance frameworks that address the environmental and social challenges these countries face.

How can DFIs, investors, and the international community help SBN IDA members to overcome the challenges they face in developing sustainable finance frameworks?

By supporting IDA countries, international actors can promote change and help countries meet their climate and development goals while also enabling new investment opportunities. By supporting IDA countries as they integrate sustainability within their financial sectors, investors and DFIs can enable new and innovative investment opportunities in emerging and developing financial markets, while helping countries achieve their green and development ambitions. In particular, international actors, including the SBN IDA Task Force, can support the expansion of sustainable finance by providing technical assistance to SBN IDA members as they develop sustainable finance frameworks.

For example, SBN IDA members have faced shortfalls in the expertise and capacity required to independently draft and launch sustainable finance frameworks. International technical assistance has proven invaluable in overcoming this challenge, as evidenced by the launch of the Cambodian Sustainable Finance Initiative, which was supported by IFC and the Mongolian Bankers Association. International actors can provide countries with technical assistance to support SBN IDA members to implement the solutions summarized below.

Building on the tools and case studies developed for this report, the SBN IDA Task Force could develop additional technical resources to support SBN IDA members develop and implement sustainable finance frameworks. The additional technical resources would include templates, operational guidelines, and other materials, which would enable SBN IDA members to fully benefit from international best practices and enable them to focus their efforts on tailoring available resources to the domestic context, rather than developing these from scratch. The resources could be compiled or adapted from existing international guidance or developed specifically to address the challenges IDA countries face. These resources should include:

- *Guidance and templates* for drafting sustainable finance frameworks and supporting materials (such as sector-specific guidelines) to help SBN IDA members benefit from international best practices and develop comprehensive and rigorous frameworks.
- *Stylized sensitization and training materials* for SBN IDA members to adapt and use to build capacity for sustainable finance in the domestic financial sector.
- *A common roadmap for sustainable finance development*, as these have been identified as useful for accelerating sustainable financial sector development and unlocking the necessary investment to achieve national sustainable development and climate commitments. The SBN IDA Task Force could develop a common roadmap and action plan that could be used as a reference for SBN IDA members when they develop their own roadmaps.
- *Tools and resources to support SBN IDA members address key priorities*, for example green project definitions or green taxonomies can help IDA countries unlock green finance flows. Similarly, risk assessment tools can support banks to implement ESRM.

The SBN IDA Task Force should also continue to conduct targeted and in-depth research into the challenges and priorities identified by SBN IDA members. Regular interaction with and periodic surveying of SBN IDA members can enable the Task Force to continually understand the needs and priorities of these countries. In particular, the correlation between different environmental and social challenges and the financial sector should be further investigated, in order to integrate activities to address these challenges comprehensively in sustainable finance frameworks and fully exploit the synergies that exist. Having an in-depth and dynamic understanding will support the Task Force to update its guidance and ensure it continues to support SBN IDA members to develop and implement sustainable finance frameworks.

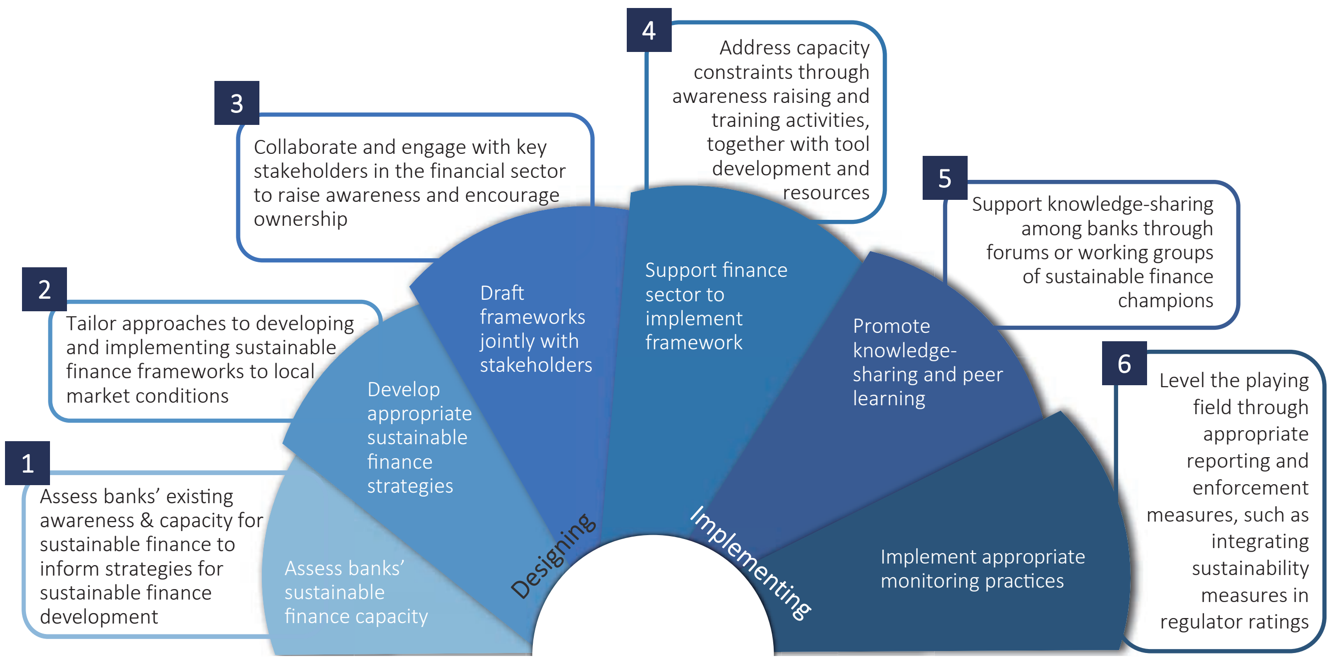
Initial tools to guide design and implementation

As a first step, the following high-level planning tools were developed based on the findings of the SBN IDA Country Diagnostic Assessment and the eight associated Country Profiles. They reflect solutions and approaches tested by IDA countries to develop and implement sustainable finance frameworks.

These recommendations can be applied not only by SBN IDA countries, but also other SBN members and all emerging economies looking to develop sustainable finance frameworks and embed them in national financial systems.

Drawing on the SBN IDA country experiences, the following six best practices emerged as being associated with effective design and implementation of a sustainable finance framework.

Figure 15: Six best practices for developing sustainable finance in IDA countries



Source: *SBN IDA Diagnostic Survey responses*

The figure below provides common steps to develop and implement a national sustainable finance framework, with specific actions identified at each stage. The proposed actions can be taken in a different order depending on existing networks, institutions, drivers and priorities in place.

Figure 16: Common stages and steps for developing and implementing sustainable finance frameworks

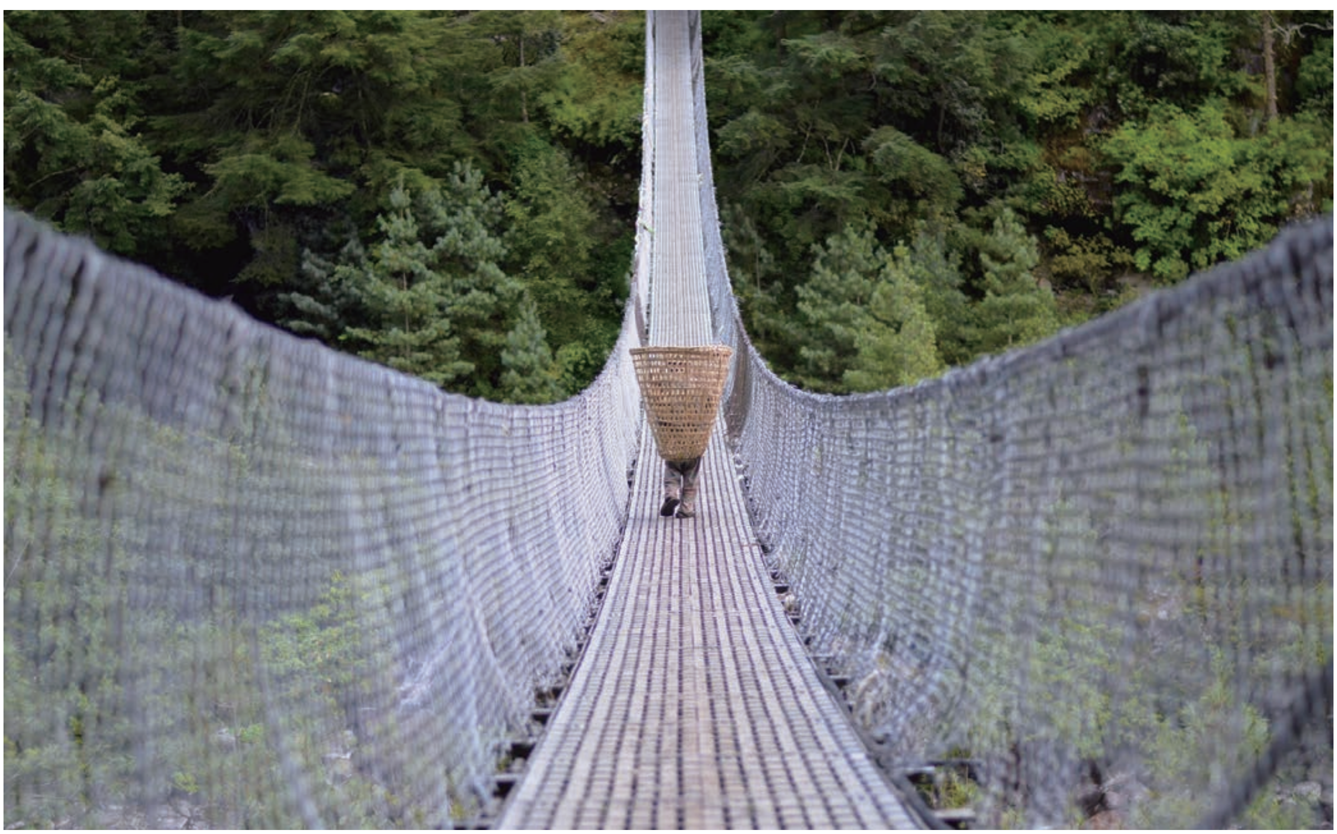
Source: *SBN IDA Diagnostic Survey responses and SBN Global Progress Report*

The following strategies have been used by IDA countries to overcome common challenges they have faced in developing sustainable finance frameworks. The relevance of the practices to a specific country depends on that country's stage in its sustainable finance journey. Figure 17 summarizes these practices.

Figure 17: Best-practice solutions to overcome common challenges related to developing and implementing a sustainable finance framework

Challenges	Solutions
• *A failure by banks to recognize the value of sustainability* and *prioritize sustainability over short-term profits*;	• *Sensitization activities within financial institutions*, to convince banks of the importance of sustainable finance and the benefits of adopting sustainable finance approaches.
• *Capacity constraints* within financial institutions that limit their engagement with and/or ability to implement sustainable finance approaches;	• *Capacity building with financial institutions,* through training of bank staff and developing additional resources to support the implementation of sustainable finance frameworks.
• *Limited national expertise* to lead and inform the sustainable finance process;	• *Knowledge sharing and peer learning*, through technical assistance within the SBN network and international exchange visits.
• *A wariness among banks of additional regulatory burdens* from aligning with sustainable financing frameworks;	• *Encouraging industry ownership of sustainable finance frameworks,* engaging with banks in the process of developing sustainable finance frameworks and, where appropriate, using a phased approach during the implementation of sustainable finance frameworks.

Source: SBN IDA Diagnostic Survey responses



Annex 1: Case Studies for Key Priorities

Pathways to developing ESRM

Case Study 1 Bangladesh – Awareness raising, capacity building, monitoring, and enforcement to ensure regulator-driven ESRM implementation

Bangladesh Bank's approach to helping banks and financial institutions implement ESRM has been developed and refined over the last decade. In 2009, Bangladesh Bank worked with IFC to draft Environmental Risk Management (ERM) Guidelines after consulting with banks and financial institutions. The Guidelines were launched in 2011 and directed financial institutions to integrate environmental risk management into their credit risk management procedures. Following changing policy priorities, for example as a result of the 2013 Rana Plaza disaster and Bangladesh's commitments to the Sustainable Development Goals, Bangladesh Bank sought support from IFC to update the ERM Guidelines. After rigorous multi-stakeholder consultation, the social dimension was added and the updated Environmental and Social Risk Management (ESRM) Guidelines were launched in 2017, replacing the ERM Guidelines. In addition to incorporating social risk into banks' risk management, the ESRM Guidelines provide a comprehensive framework to encourage and assist financial institutions in implementing an Environmental and Social Management System. The new Guidelines also enable Bangladesh Bank to monitor implementation through increased reporting requirements for banks.

Through the process of developing and refining the ESRM guidelines, Bangladesh Bank has learned the importance of raising awareness about E&S issues among banks to encourage implementation. The consultation process in 2010/11 consisted largely of sensitization training among the managing directors of banks. Bangladesh Bank had to convince banks of the importance of E&S risks and demonstrate how ESRM is relevant to the broader risk management framework. Bangladesh Bank also developed a capacity-building program to support bank managers and employees to implement an ESMS in their financial institution. Through this process, Bangladesh Bank observed a growing level of awareness and enthusiasm for risk management and sustainability in the financial sector.

Awareness raising and capacity building has been accompanied by monitoring and enforcement to ensure ESRM implementation. In Bangladesh, E&S risk is monitored alongside other banking risks and is linked to international and domestic regulatory approaches accordingly. In 2012, Bangladesh Bank integrated environmental risk management into its implementation of Pillar Two of the Basel II Accord. Through this, banks are required to maintain an additional capital buffer over the Capital Adequacy Ratio that accounts for exposure to environmental and climate risk. Bangladesh Bank collects data from banks to monitor their ESRM implementation, including the share of transactions with high E&S risk for each bank or financial institution and the actions taken by boards to address these transactions. Through this monitoring, Bangladesh Bank generates sustainability ratings for banks, which are incorporated within their overall CAMELS rating (the supervisory rating system used to classify a bank's overall condition). Bangladesh Bank continues to adapt its approach to monitoring and enforcement to effectively engage with banks on ESRM implementation. Priorities include: (1) improving banks' incentives to exceed the minimum requirements for ESRM implementation; (2) building supervisory capacity for assessing environmental and social risks; and (3) monitoring the impact of banking activities on the environment.

Key lessons from Bangladesh Bank's experience in supporting ESRM implementation include the importance of

- **Awareness-raising and capacity building** – banks initially didn't understand the importance of E&S risks to their operations, but Bangladesh Bank worked extensively with managing directors of financial institutions to convince them of the business case for ESRM ;
- **Comprehensive integration of E&S risks into the broader risk management framework** – through incorporating E&S risks into macroprudential regulation, banks were able to understand the importance of ESRM, and Bangladesh Bank was provided with the tools for enforcement;
- **Clear policy framework** – the success of ESRM implementation in Bangladesh is attributed to having a comprehensive policy that clearly specifies the activities required by banks, with appropriate monitoring and enforcement;
- **Developing and refining ESRM guidelines over time** – through a gradual process, banks have been able to develop their internal capacity to implement their ESMS; and
- **Taking advantage of external resources** – in developing ESRM guidelines and supporting the implementation of them by banks, Bangladesh Bank has benefited from World Bank support to develop the financial sector in Bangladesh and has also made extensive use of peer learning within the SBN network.

Case Study 2 Kenya – Straightforward and voluntary reporting to promote industry-driven ESRM implementation

Sustainable finance implementation in Kenya has been voluntary and consensus driven. The Kenya Bankers Association has adopted a process of first raising awareness about environmental and social (E&S) issues among banks, followed by promotion of the practical implementation of environmental and social risk management (ESRM) through training and capacity building, with the expectation that reporting and compliance will follow once each bank's internal capacity has been sufficiently developed.

In March 2019, the Kenya Bankers Association gained a mandate from banks to commence voluntary reporting. The issue of reporting had emerged from the 2018 SBN Global Progress report, which highlighted it as an area for development in Kenya's sustainable finance journey. The Kenya Bankers Association is now in the process of developing reporting guidelines for ESRM to monitor how banks are integrating E&S considerations into their lending practices.

Although in the early stages of development, it has become clear that reporting requirements need to be straightforward and not arduous. A number of banks in Kenya have credit lines from DFIs, which already require banks to report on ESRM. The differing reporting requirements have created confusion and duplication. As such, the Kenya Bankers Association plans to launch reporting guidelines that are easy to manage and adhere to, with the expectation that these may be developed further over time.

Promoting green finance

Case Study 3 Bangladesh – Broader definitions and tailored processes to promote green projects

Bangladesh started developing a green project list in 2011 and published a detailed taxonomy in 2017, with 52 products in eight sectors/categories. After the issuance of the Green Banking Guidelines in 2011, Bangladesh Bank started working on this taxonomy because there were no standardized benchmarks, certifications, or accreditations in the country. Bangladesh Bank could not force banks to hire environmental specialists to create green project definitions and therefore has had to provide the knowledge in this area for green finance to progress. Bangladesh Bank created a taxonomy that details which sectors and what products within the sector qualify as green. These range from energy efficiency and renewable energy to waste management and environmentally friendly brick manufacturing.

Bangladesh Bank is slowly moving away from a more detailed taxonomy in favor of a broader green project definition. After developing the green project list, Bangladesh Bank created a product innovation/development methodology that aims to help banks and FIs evaluate the financial profitability and environmental and social feasibility, as well as the risk of innovative green finance products. These assessments include cash flow forecasting and looking at resource efficiency and land contamination prevention, for example. They are currently working to produce standards and benchmarks for a broader set of products to establish a more comprehensive and sustainable policy.

Based on its experience, Bangladesh Bank recommends that other countries looking to develop green project definitions engage widely and tailor the process to country specifics. This means consulting with banks and financial institutions to gauge their knowledge about green finance and use this data to create an appropriate strategy. For example, where there is less knowledge, starting with a detailed taxonomy enables banks and FIs to accustom themselves gradually to the idea of green finance and projects. Where banks and FIs are more advanced, the strategy is to develop a broader taxonomy and allow these institutions to adapt it to their needs. In addition, seeking guidance more broadly from SBN, peer countries, and other international organizations is recommended.

Case Study 4 Kenya – Building on international taxonomies to accelerate national green bond development

Kenya developed green project definitions as part of its green bond guidelines in 2019, building on the taxonomy developed by the Climate Bonds Initiative (CBI). The taxonomy is detailed and contains both eligible sectors and excluded sectors, or those that can't be considered green. The Kenyan Banking Association (KBA) worked closely with CBI to adapt the taxonomy to the Kenyan context, for example to include more water projects. This detailed taxonomy has made it easier to report and identify green assets.

From its experience, the KBA suggests that building on already established taxonomies can accelerate the process. The partnership between CBI, an organization with significant expertise developing green project definitions, and the KBA, with its expertise on the Kenyan context and banking system, produced an adapted taxonomy in much less time than if it was started from scratch.

Case Study 5 Kenya – Broad stakeholder engagement to empower the issuance of green bonds

Sustainable finance frameworks have provided the foundation for the development of green bonds. Kenya observed the need to align the financial industry with sustainable finance in 2012. This prompted an assessment of awareness and capacity in the industry, and it was found to be very low. Following from this, the KBA engaged at length with banks and financial institutions, providing training and recording what their priorities were. Building their knowledge in sustainable finance enabled the engagement and understanding around new asset classes, in particular green bonds.

Kenya started working toward developing green bonds in 2017; it issued the Green Bond Listing Rules in December 2018, and the Green Bond Guidelines were published in early 2019. Enabled by such policy infrastructure, Kenya issued its first green bond of $4.3 million in October 2019. The KBA, Nairobi Stock Exchange (NSE), Climate Bonds Initiative, Financial Sector Deepening Africa, and the Dutch Development Bank have been working together on the Green Bond Program. The program focuses on four areas of intervention: technical support for potential issuers; training programs for issuers and verifiers; regulation and policy research on demand for green finance; and green bond issuance for Kenya.

However, there have been several challenges on the way and the KBA is working to solve them:

- **Lack of awareness and capacity:** The KBA and its partners have engaged robustly with stakeholders via meetings, trainings, and conferences. In 2017-2018 it organized 14 events attended by 700 potential issuers, investors, and financial intermediaries. This has provided a platform for banks to align definitions, priorities, and principles. As a result, there is now a high level of understanding.

- **The policy and regulatory environment is not currently facilitating green bond issuance.** There is a controlled interest rate regime in Kenya that caps the lending rate for banks at 4 percent above the Central Bank rate. For issuing green bonds, this means that margins are too small for the bank to be a credible business case and the risks can be high. The KBA and banks have been engaging with government and regulators to address this challenge, notably by supporting a caucus in parliament on the SDGs and business.

Kenya issued its first green bond in October 2019. The K sh 4.3 billion ($40 million) Climate Bonds Certified issuance will finance green and environmentally friendly accommodation for 5,000 university students in Nairobi. The Kenyan government is also due to issue green bonds this year and has been using the green bond guidelines developed during the Green Bond Program, which speaks to the success of this work.

The KBA found that engagement has been key to developing a green bond market and maintaining traction. The process has involved partnerships with many different stakeholders—investors, issuers, financial intermediaries, banks, politicians, and regulators—which is key to creating a lasting green bond market. Kenya's goal goes beyond one green bond issuance: Engaging with stakeholders in all realms of green bonds should create the environment for a lasting green bond market and the sustainability of the Green Bond Program.

Case Study 6 Mongolia – Leveraging a sustainable finance framework to unlock green finance opportunities

Sector-wide adoption of a sustainable finance framework accelerates green finance development. The sustainable finance framework including the ESRM toolkit was developed in 2014 by the Mongolian Bankers Association (MBA) with support from IFC and FMO and adopted by all banks, which account for almost 90% of the Mongolian financial market. Since 2015, the MBA has implemented comprehensive trainings tailored to specific roles in banks to support the implementation and reporting of ESRM, and it an accompanying online learning tool in 2018. The Central Bank of Mongolia issued an official directive in 2015 to include sustainable finance reporting in banks' annual reports, and a specific ESRM report is submitted on a voluntary basis. Placing emphasis on advancing sustainable and green finance, Mongolian banks have established a special entity called the Mongolian Sustainable Finance Association (MSFA) with a mandate to expand the sustainability agenda into all relevant economic sectors and become a sustainable finance regional knowledge center. MSFA, with membership of all banks, is now looking to expand into non-banking and non-financial sectors. The most recent development is the approval of the national green taxonomy, as well as pilot projects to introduce sustainable finance principles into priority sectors, energy efficiency and textile production.

Successful implementation of sustainable finance has served as a fundamental step to attract climate financing. Banks that have been leading their peers with a strong emphasis and commitment to the implementation of ESRMs have already started accessing green funding. The two Mongolian banks (Xac Bank and Trade and Development Bank) have been granted an accreditation from the Green Climate Fund (GCF). In addition, Mongolian banks together with the Government of Mongolia have submitted to GCF a project proposal to establish a green on-lending fund facility, called the Mongolia Green Finance Corporation, to increase accessibility and affordability of green funds for local banks and disseminate sector-wide green finance knowledge.

National Green Taxonomy development calls for technical and industrial capacity. To further promote green finance, MSFA with the support from Tsinghua University and IFC developed a green taxonomy. In December 2019, the national Green Taxonomy identifying 58 green activities in 8 sectors was approved by the Financial Stability Council of Mongolia after completing several nationwide stakeholder consultations. Starting in Q1 2020, banks have started reporting the green share of their lending portfolio to the Central Bank in line with the taxonomy, which paves the way for tracking and reporting of the banking sector's contribution to the realization of the Mongolian Nationally Determined Contributions under the Paris Agreement. Developing a tailored national green taxonomy stresses the need for industry-specific guidelines, rating standards, labels, and local verification capacity.

Mongolia has realized growing needs for green pipelines and capacity development. MSFA has identified construction and textile production as priority sectors to integrate sustainability principles and attract green funding. In line with this, MSFA has developed energy efficiency rating criteria, and is collaborating with the MBA and the German Corporation for International Cooperation (GIZ) to pilot the energy efficient affordable housing value chain by offering subsidized mortgage loans through nine participating banks. In the textile sector, MSFA has developed a sector-specific guideline and is now working to develop a green credit criterion. Through this work, MSFA will work to incubate 20 SMEs in line with sustainability principles and connect them with green funding offered by local banks.

Case Study 7 Nigeria – Issuing sovereign and corporate green bonds to finance NDCs

Nigeria published its Green Bond Guidelines in 2017, followed by the issuance of its first green bond at the end of 2017. The Guidelines, developed by the Federal Ministry of the Environment with the support of the Ministry of Finance, established how the proceeds of the bonds would be used, the policies and internal control procedures to manage the selection of projects, and the management of the proceeds and reporting. The Guidelines were developed for issuers as well as investors. Subsequently, the first Nigerian sovereign green bond was issued in December 2017, worth $29 million (UNEP Inquiry, 2017).

Nigeria started working toward issuing green bonds in order to finance its Nationally Determined Contributions (NDCs). The key driver was the need to finance the infrastructure gap in a sustainable way that takes environmental considerations into account. Indeed, in the Guidelines, the eligible projects are connected to NDCs and the first green bond was issued to finance renewable energy and afforestation activities.

Following the issuance of Nigeria's first green bond, the Securities and Exchange Commission (SEC) of Nigeria began development of a non-sovereign green bond market in Nigeria. The SEC developed guidelines based on international practices with the assistance of the Climate Bonds Initiative. Toward the end of 2018, the SEC issued a regulatory framework called 'Green Bond Issuance Rules' (Independent Newspapers Nigeria, 2018). It complements the work already done by the Federal Government and aims to create a non-sovereign green bond market.

The first Nigerian corporate green bond was issued in 2019 and was the first certified corporate green bond in Africa. Access Bank Plc issued this first certified green bond, worth $41 million. It is a five-year bond with a 15.5% fixed rate and proves that a financial case can be made for green bonds in Nigeria, which had previously been a challenge (Whiley, 2019.

A lack of knowledge was the main challenge to overcome with the issuance of both types of green bonds, in addition to a lack of capacity at the SEC. Collaborating with international partners and leveraging international guidelines were critical to the process. The international guidelines provided a strong foundation to build and adapt to the national context, and this made the certification of green bonds easier. The SEC engaged with key international actors in the green bond space, including CBI, UN Environment Program, and IFC. These challenges have been overcome and Nigeria has become as a leader in green finance.

Financial inclusion

Case Study 8 Bangladesh – A three-pronged approach to policies, low-cost refinancing, and knowledge support

In Bangladesh, financial inclusion is conceived of as access to and use of a range of quality financial products and services provided by formal service providers to all segments of the population. A multi-dimensional concept, financial inclusion requires products to be affordable, suitable, and convenient; service delivery to protect consumers' interests and dignity; consumers to have strong levels of financial awareness and literacy; and the financial market to be diverse and competitive (AFI, 2018a).

Bangladesh Bank has identified financial inclusion as a cross-cutting, high-priority objective that supports poverty reduction and contributes to inclusive and sustainable economic development. Financial inclusion increases households' ability to invest and save, making them less vulnerable to shocks. It is therefore seen as a critical tool for improving Bangladesh's resilience to both environmental and social risks, and is strongly linked to the sustainable finance agenda (AFI, 2018b).

Bangladesh Bank's approach to financial inclusion has been three-pronged:

- developing facilitating policies for banks and financial institutions, such as for mobile and agent banking;
- providing funding support through low-cost refinancing schemes; and
- coordinating and providing knowledge support to other regulatory and government bodies.

Bangladesh Bank is unique in mandating that banks expand access to the financially excluded. In 2010, Bangladesh Bank mandated that banks must open half of their branches in rural areas. It also introduced No Frills Accounts, where state-owned commercial banks are obliged to administer basic accounts without fees or minimum balance requirements; these have been made available to farmers, garment sector workers, cleaners, recipients of social security, and other underserved groups. The accounts enable their holders to perform other financial operations such as receiving remittances and accessing formal credit.

The regulation and policy support for financial inclusion has been delivered in conjunction with key financial infrastructure and innovation. Since 2010, initiatives have included a fully automated payment clearings system; Electronic Fund Transfer; and National Payments Switch and Real Time Gross Settlement.

Bangladesh Bank has experienced substantial success in its efforts to promote financial inclusion. The proportion of adults with a financial account increased from one-third in 2011 to one-half in 2017. This is supplemented by substantial growth at the level of specific service delivery channels. Between June 2017 and 2018, the number of agent banking accounts more than doubled, to 18 million.

Bangladesh Bank aims to publish a National Financial Inclusion Strategy. This national strategy will provide a roadmap for ensuring cooperation and coordinated action by the government, the private sector, and other stakeholders, and should help support increased integration of financial inclusion and broader sustainable finance goals and delivery approaches.

Case Study 9 Nigeria – Establishing economic links between smallholder farmers and large-scale agricultural processes

The Central Bank of Nigeria established the Anchor Borrower's Program (ABP) in 2015 to deepen financial inclusion through the creation of economic linkages between smallholder farmers and large-scale agricultural processes. The program aims to alleviate the impacts of climate change on smallholder farmers by providing Revenue Index Insurance, which provides automatic payouts to farmers based on predicted crop yields using satellite data on precipitation. By early 2020, the ABP has created over 250,000 direct jobs for farmers and up to 1.25 million indirect jobs.

Case Study 10 Nigeria – Promoting financial inclusion through agent banking, mobile banking and payments, linkage models, and client empowerment

The Central Bank of Nigeria's approach to financial inclusion has included a number of regulatory actions to increase the supply of financial services, and these could be incorporated into sustainable financing frameworks in other contexts. Nigeria's experience provides key examples of ambitious approaches that are well aligned with a broader roadmap for sustainable finance. It also demonstrates some of the challenges of this approach.

The Central Bank of Nigeria (CBN) adopted the National Financial Inclusion Strategy in 2012, with an ambitious target of reducing the portion of the adult population that is financially excluded to 20 percent by 2020. The strategy was fourfold:

- **Agent banking** – delivering banking services outside of traditional bank branches;
- **Mobile banking and payments** – access to financial services through consumer technology;

- **Linkage models** – cooperation between banks, government, and microfinance institutions; and
- **Client empowerment** – financial literacy and consumer protection.

Implementation of these strategic priorities required CBN guidelines and frameworks, including tiered know-your-customer requirements; agent banking regulation; the national financial literacy strategy; and consumer protection policies.

The CBN has acted to address the challenges on digital financial services through a number of supply-side and regulatory actions, including

- signing a 2018 memorandum of understanding with the Nigerian Communications Commission on digital payment systems to take greater advantage of innovative models that have substantially increased financial inclusion in other countries;
- levelling the playing field between providers via Payment Service Bank licenses in order to increase the category and number of digital financial service providers;
- harmonizing 'know-your-customer' requirements for opening and operating accounts and mobile wallets on all financial services platforms, a key priority in the 2018 Financial Inclusion Strategy; and
- establishing a regulatory sandbox to support the development of innovative financial services, in partnership with the Nigeria Inter-Bank Settlement System (NIBSS).

The CBN has also focused on enabling the rapid growth of agent networks. To increase the extension of agent banking, the CBN launched the Shared Agent Network Facility to roll out 500,000 agents to extend financial services to people in excluded regions. As a result of the national financial strategy and its implementation, the exclusion rate had dropped to 41.6% in 2016 from 46.3% in 2012, and continues to trend downward.

Case Study 11 Collective Experiences – Leveraging sustainable finance frameworks to address social issues

SBN IDA members could leverage sustainable finance frameworks to attract the finance flows needed to address social issues, similar to the way green finance can be used to address environmental issues.

Financing solutions for addressing social issues typically fall under the impact investment umbrella. Three guiding principles are used to differentiate impact investment: (UNDP, 2019)

- the expectation of a financial return;
- the intention to tackle social or environmental challenges; and
- a commitment to measuring and reporting against the intended social and environmental impact.

Impact investment is not limited to a specific asset class or sector, and can include venture capital, private equity, and other types. One instrument used for impact investment is social and development impact bonds. These are public-private partnerships that allow private investors to front capital for public projects that deliver social outcomes. If the project succeeds, the investors are repaid. Social and sustainability bonds are also growing in popularity, building on the success of green bonds. These bonds are similar to traditional bonds, except that they promise to achieve social and sustainability impacts, often aligned with the sustainable development goals (SDGs).

To support the flow of sustainable development finance, SBN IDA members can help build the credibility of green and social impact instruments, for example by developing clear definitions and taxonomies and promoting integrity standards to prevent 'impact-washing.'

Agriculture and SME finance

Case Study 12 Bangladesh – Agricultural and rural credit policy to promote finance to the agricultural sector

The Agricultural and Rural Credit Policy issued by Bangladesh Bank comprehensively promotes finance to the agriculture sector. Through the policy, banks

- are to set a comprehensive annual program for financing agriculture, which includes a list of priority financing areas and an annual target;
- are provided with access to refinancing facilities for sharecroppers, milk production and artificial insemination, and jute production;
- benefit from an interest rate subsidy for loans to maize, pulses, oilseeds, and spices; and
- are obliged to prioritize disadvantaged farmers, including women, tribal, and coastal farmers.

The policy has been effective in increasing finance to the agriculture sector. Key factors in the success of the policy include the following:

- **Regionalization** – the annual program is set through regional Agricultural and Credit Committees, which are multi-stakeholder groups operating within specific districts;
- **Cooperation with the Agricultural Ministry** – the Agricultural Ministry works with the Committees to inform them of priority agricultural commodities and their specific financing needs (such as crop cycles), which enable the policies to provide finance in a timely and efficient manner; and
- **Efficient delivery** – banks are encouraged to use microfinance institutions as a delivery channel, which enables them to achieve penetration across dispersed rural areas and address financial inclusion challenges.

Case Study 13 Nigeria – The Central Bank of Nigeria expands finance to the agriculture and SME sectors through development finance operations

The Central Bank of Nigeria (CBN) has supported the expansion of finance to the agriculture and SME sectors through its development finance operations. The Development Finance Department formulates and implements the policies and innovations needed for financial institutions to deliver services efficiently and sustainably.

The CBN implements a number of schemes to support finance to agriculture and SMEs, including the following:

- **Agricultural Credit Support Scheme** – which disburses loans to farmers and agro-allied entrepreneurs. Banks grant loans to qualified applicants at a 14 percent interest rate, but applicants that repay on schedule receive a rebate of 6 percent, such that the effective rate of interest for farmers is 8 percent.
- **Commercial Agriculture Credit Scheme** – through which participating financial institutions disburse loans to commercial agricultural enterprises at a 9 percent interest rate, with the subsidy covered by the Central Bank of Nigeria.
- **The MSME Development Fund in 2013** – which is split between developmental objectives such as grants, capacity building, and administrative costs (10 percent), and a commercial component (90 percent). Through the commercial component, participating financial institutions receive funds at a low interest rate (2 percent) for on-lending to MSMEs at a maximum interest rate of 9 percent per annum.
- **Anchor Borrowing Scheme** – which improves the linkages between smallholder farmers and agro-processors. Smallholder farmers and agro-processors agree that smallholders will sell their products to the agro-processors at harvest, and this agreement reduces the risk for banks to lend to smallholder farmers without collateral. In five years, the program has created over 250,000 direct jobs for farmers and up to 1.25 million indirect jobs.
- **Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) scheme** – which de-risks the agricultural sector. It has facilitated the lending of $375 million from commercial banks to agribusiness across the value chain; trained over 700,000 farmers on good agronomic practices and financial skills; and provided more than 500,000 smallholder farmers with quality agricultural inputs. It also has a Climate Smart Agriculture and Renewable Energy Business Unit to address climate-related risks in agriculture.
- **National Collateral Registry** – which seeks to expand credit to SMEs through enhanced acceptability of moveable assets such as equipment, machinery, vehicles, tricycles, crops, livestock, account receivables, inventories, and jewelry as collateral for loans by financial institutions. Established with IFC support, the Registry has assisted over 150,000 micro, small, and medium enterprises to access ₦1.2 trillion loans.
- **Index-based insurance** – in 2017 an insurance roadmap was launched that outlines the steps needed, with support from public-private partnerships, to develop new index-based insurance products. Index insurance triggers payouts based on an index that is correlated with agricultural losses, rather than actual losses. This reduces the costs of insuring smallholder farmers and the delays in processing payouts.

The CBN reports that key industry stakeholders have attributed the recent increase in bank loans to the agriculture sector to CBN interventions. In 2018, bank credit to the agriculture sector reached a record level of ₦2.2 trillion, equivalent to 4 percent of the total lending of commercial banks, a 16 percent increase from 2017.

Case Study 14 Collective Experiences – Proposed approaches to expanding agriculture and SME financing via sustainable finance frameworks

Expanding finance to the agriculture and SME sectors has not yet been consistently integrated with sustainable finance frameworks, but could be in the future. In particular, this could be used to encourage investment in improving the sustainability of these sectors, for example promoting environmentally friendly or green technologies within the agriculture sector or energy efficient equipment for SME business operators.

Mongolia and Nigeria have both developed tailored environmental and social (E&S) risk management guidelines for the agriculture sector. This supports local financial institutions to be better able to assess the environmental and social risk of agricultural activities and can encourage increased sustainability within the sector. Developing sector-specific guidelines in this way is more common among SBN IDA members and may reflect that the financial sector in these countries needs specific guidance to address E&S issues in priority sectors due to capacity constraints.

World Bank research (World Bank Group, 2016) indicates that integrating agricultural and SME finance into sustainable finance frameworks could involve

- requiring banks to develop a clear and effective agricultural or SME lending strategy, with particular focus on lending to improve the sustainability of the sector;
- encouraging banks to identify opportunities for expanding their lending to the agriculture or SME sectors; and
- ensuring banks manage and monitor their lending portfolios to the agriculture and SME sectors, and include this as part of their sustainable finance reporting requirements.

To support banks to deliver on the above, SBN members could

- develop processes to classify those agriculture projects and portfolios that achieve positive climate outcomes as 'climate-smart,' based on a set of metrics;
- integrate agricultural and SME finance as components of sustainable finance frameworks, in particular focusing on improving the sustainability of these sectors;
- provide training to financial institutions to build capacity for agricultural finance and climate-smart agricultural finance, for example training staff on climate-smart interventions and the benefits of farmers adopting certain climate-smart practices and technologies;
- develop tailored environmental and social risk management guidelines to support banks to accurately assess risk when considering loans to businesses and to be informed about how they can encourage businesses in these sectors to be more sustainable through their lending practices; and
- collect and disseminate data on credit extended to these sectors, including credit extended for the purpose of improving sustainability in the sector.

Where SBN members are in the position to directly provide affordable credit to the agriculture and SME sectors, they should ensure that this credit is directed toward environmentally friendly investments. For example, in Brazil (a middle-income SBN member country), the ABC Program established by national resolution established green credit lines to support agricultural businesses' investments in low-carbon technologies and processes (Getulio Vargas Foundation Center For Sustainability Studies, 2014).

Case Study 15 Collective Experiences – Proposed approaches to addressing market failures via sustainable finance frameworks

The activities SBN members can undertake to address the market failures associated with credit to the agriculture and SME sectors are unlikely to be integrated within sustainable finance frameworks. However, SBN members can integrate sustainability considerations and amplify their impact via the following types of activities:

- *Refinancing facilities* – as with the 'expand finance' section, preferential finance schemes should support investments in sustainability and climate-friendly technologies;
- *Risk-sharing systems* – climate risk insurance could be bundled with credit guarantees and risk-sharing mechanisms, and environmental and social risk could be fully integrated into these activities; and
- *Finance infrastructure development* – environment and social risk could be part of the risk information collected on borrowers and disseminated through credit registries to help create momentum within markets for adopting sustainable and climate smart practices.

Cast Study 16 **Collective Experiences – Proposed approaches to integrating program-style activities into sustainable finance frameworks**

Programmatic approaches could be used to extend sustainable finance to the agricultural and SME sectors. For example, as Bangladesh Bank encourages financial institutions to support entrepreneurs, sustainable finance frameworks could encourage banks and financial institutions to engage with the agricultural sector. Such a program could include:

- providing farmers with the understanding and skills they need to access financial services, including both credit and insurance (this could take the form of a help desk); and
- training farmers on climate-smart agricultural practices, so that they better understand the adverse effects of climate change on their production systems and how climate-smart practices could enable them to better mitigate and manage risk.

Annex 2: Climate Finance Opportunities in Emerging Markets

As outlined in the Climate Investment Opportunities in Cities Report (2018), IFC undertook a bottom-up analysis to assess the market potential for investment opportunities in emerging market cities. The analysis is based on a database of prioritized urban interventions and cost estimates for their implementation across six high-impact sectors: green buildings, public transport, electric vehicles, waste, climate-smart water, and renewable energy. IFC estimates there is a cumulative climate investment opportunity of $29.4 trillion in six urban sectors in emerging markets cities by 2030.

Investment potential in cities by region and sector to 2030

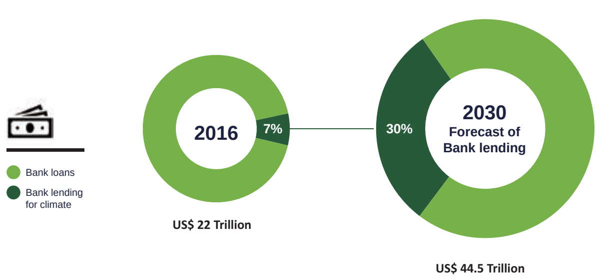
	East Asia Pacific	South Asia	Europe & Central Asia	Middle East & North Africa	Sub-Saharan Africa	Latin America & Caribbean	Total
Waste	$82 billion	$22 billion	$17 billion	$28 billion	$13 billion	$37 billion	$200 billion
Renewable energy	$266 billion	$141 billion	$88 billion	$31 billion	$89 billion	$226 billion	$842 billion
Public transportation	$135 billion	$217 billion	$116 billion	$281 billion	$159 billion	$109 billion	$1 trillion
Ciimate-smart water	$461 billion	$110 billion	$64 billion	$79 billion	$101 billion	$228 billion	$1 trillion
Electric vehicles	$569 billion	$214 billion	$46 billion	$133 billion	$344 billion	$285 billion	$1.6 trillion
Green buildings	$16 trillion	$1.8 trillion	$881 billion	$1.1 trillion	$768 billion	$4.1 trillion	$24.7 trillion
TOTAL	**$17.5 trillion**	**$2.5 trillion**	**$1.2 trillion**	**$1.7 trillion**	**$1.5 trillion**	**$5 trillion**	**$29.4 trillion**

INCREASING INVESTMENT

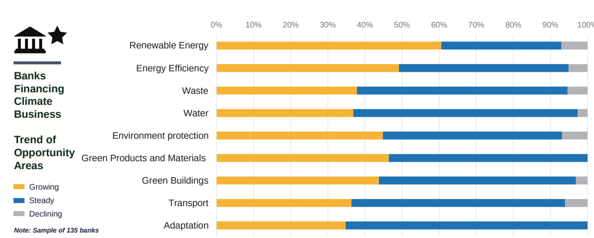
Source: Climate Investment Opportunities in Cities, IFC, 2018

IFC also estimates that the share of climate and green finance represented 7 percent of total private sector bank lending in 2016. To accommodate the debt financing associated with climate investment opportunities, IFC estimates that this number would have to grow from 7 percent to 30 percent of total bank lending, as shown in the figure below. Another survey carried out by IFC indicates that banks are increasing their financing to most climate-related sectors. The sectors benefiting from the strongest growth in banks' portfolios are renewable energy and energy efficiency, as shown below.

Bank lending for climate investments in 2016 and 2030 for 21 emerging markets



Growth trends in various sectors for IFC client banks



Source: IFC. 2018. Raising $23 Trillion: Greening Banks and Capital Markets for Growth

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Access the SBN Necessary Ambition Report and associated Country Profiles at: www.ifc.org/SBNnecessaryambition

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