The Sustainable Banking Network (SBN)

NECESSARY AMBITION:

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

June 2020











Source: World Bank Group IDA Infographic: https://ida.worldbank.org/what-is-IDA/what-we-do/how-ida-reduces-poverty

Sustainable

Banking

Network



Climate change & the pandemic can aggravate poverty and exacerbate the challenges

- In the past ten years, 3 out of the 10 countries that are most affected by extreme weather events (1999-2018) are IDA countries, who also all happen to be SBN members: Bangladesh, Pakistan, and Nepal.
- If unchecked, climate change could push an additional 100 million people into poverty by 2030, with severe consequences for the extreme poor and the most vulnerable.
- The World Bank estimates the current COVI-19 pandemic will push 49 million people into extreme poverty in 2020.

"While the tragic impacts of this pandemic are being felt globally, this crisis will likely hit the poorest and most vulnerable countries, and their people, the hardest." The World Bank Group President David Malpass



Source: http://documents.worldbank.org/curated/en/898721564074799426/pdf/IDA19-An-Overview-Ten-Years-to-2030-Growth-People-

le <u>Resilience.pdf</u> <u>https://germanwatch.org/sites/germanwatch.org/files/20-2-01e%20Global%20Climate%20Risk%20Index%202020_14.pdf</u> <u>https://blogs.worldbank.org/opendata/impact-covid-19-coronavirus-global-poverty-why-sub-saharan-africa-might-be-region-hardest</u> <u>https://www.worldbank.org/en/news/speech/2020/04/02/remarks-by-world-back-group-president-david-malpass-during-press-call-on-first-operations-for-covid-19-coronavirus-emergency-health-support</u>



SBN Necessary Ambition Report – Global Context



Climate Financing Opportunities in Emerging Markets, Contributing to the Paris Agreement and Nationally Determined Contributions (NDCs)

Source: IFC Compilation, data from: Climate Investment Opportunities in Cities, IFC, 2018 Raising \$23 Trillion: Greening Banks and Capital Markets for Growth



IFC estimates there are **US\$29 trillion** climate investment opportunities in six urban sectors in emerging markets cities until 2030. Banks need to increase the share of climate lending from **7% today to 30% in 2030** to mobilize the necessary financing for investment opportunities presented by the NDCs in those 21 countries.





The **Sustainable Banking Network (SBN)** is a unique, voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. Eight years since the network's establishment, its members now represent 39 countries and \$43 trillion (86 percent) of the banking assets in emerging markets.

IFC serves as the Secretariat and Technical Advisor, assisting members to share knowledge and access capacity building that helps them design and implement national sustainable finance initiatives.









Responding to the request from its IDA members, the IDA Task Force was established to provide targeted assessment of and support to sustainable finance development and implementation in 11 SBN IDA countries. They are **Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Nigeria, and Pakistan.**











Some IDA countries are among the more advanced SBN members, though many are still at earlier stages in developing sustainable financial systems



* Ghana launched their policies and principles in November 2019, after the publish of SBN 2019 Global Progress Report.



- Built on the findings from the SBN Global Progress Reports
 - Identify drivers and challenges to develop and implement sustainable finance framework
 - Help IDA members to overcome common challenges on developing and implementing the sustainable finance framework
 - Illustrate best practices and examples on leveraging sustainable finance framework to address other financial sector development priorities
- The structure of the report:
 - Diagnostic survey findings
 - 16 best practice case studies
 - Country profile reports on 8 IDA members
 - Vivid Economics, a UK based consulting company was commissioned to undertake the research and prepare the report.







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.







Policy environment was most often considered an important driving 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	•	••	•	•









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



Regulator-Driven Regulator drafts and launches the sustainable finance principles, with stakeholder consultation

Regulator supports sustainable finance implementation with training and capacity building within financial institutions

Mongolia, Banking association initiated the process, but quickly moved to full regulator-industry-collaboration.



Nigeria

Banking association receives mandate from banks

- Banking association drafts sustainable finance principles, often with oversight from working group of bank representatives
- Industry-Driven Banks adopt the sustainable banking principles, supported with training and capacity building from the association

Public-Private Partnership for Implementation







SBN IDA countries are at different stages of their journey to developing and embedding sustainable financial systems

		Trigger	Engage	Launch	Refine
	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)	
Regulator	Bangladesh	Growing awareness of Bangladesh's vulnerability to climate change (2009)		- 0	Guidelines extended to other institutions (2013), ERM guidelines widened to include social risk (2017)
-Driven	Pakistan	Sustainable banking recognized as key to developing reliable and renewable energy	Green Banking Guidelines developed and launched (2017)		
Initiated by	Ghana	Sustainable Banking Committee for Ghana created (2015)	Draft Sustainable Banking Principles developed and discussed with stakeholders (2017-18)		
Industry then rapidly moved	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)
to Regulator- Industry Collaboration	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 Iaunched (2014)	Mongolian Sustainable Finance Association established (2017), Roadmap published (2018)
Consoration	Cambodia			Sustainable Finance Committee drafts policy, adopted by banks (2019)	
Industry- Driven	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)	and launches Guiding Principles	Kenyan Bankers Association supports reporting of Guidelines, plans to issue green bond (2019)



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
tainable	



Sustainable Banking Network



Six priority areas 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	







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

			Hi	gh		Medium	Low	N/A
	Build the capacity of regulators and financial institutions	•	•	•	•			
nment uilding	Enhance cooperation among financial institutions	•	•	•		•		
Enabling environment and capacity building	Provide clear incentives for sustainable finance	•	•	•		•		
Enablin and cal	Develop and launch a sustainable finance roadmap	•	•	•		•		•
	Expand sustainable finance to other financial sectors	•				••	•	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	•	•	•	•	•		
	Promote public available environmental data	•	•	•		•		
	Create green asset guidelines, incentives, and awareness	•	•	•		•	•	



Key areas of concern related to financial sector development

			Hi	gh		Medium	Low	N/A
nment ilding	Build the capacity of regulators and financial institutions	•	•	•	•			
	Enhance cooperation among financial institutions	•	•	•		•		
Enabling environment and capacity building	Provide clear incentives for sustainable finance	•	•	•		•		
Enablin and cap	Develop and launch a sustainable finance roadmap	•	•	•		•		•
	Expand sustainable finance to other financial sectors	•				••	•	
Specific regulations or tools	Develop a taxonomy of green/socially inclusive projects	•	•	•	•	•		
	Promote public available environmental data	•	•	•		•		
Specif	Create green asset guidelines, incentives, and awareness	•	•	•		•	•	



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.

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

Critical issues in designing and implementing sustainable finance frameworks



How have IDA countries supported banks to implement ESRM?



How have IDA countries connected sustainable finance with developing green-finance opportunities? Connecting sustainable finance frameworks with national development priorities



How have IDA countries connected sustainable finance development with promoting financial inclusion?



How have IDA countries connected sustainable finance to investment in agriculture and SMEs?







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.









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

		Action	Objective	Examples from SBN members
ies/ lines	(Jr)	Incorporate ESRM into sustainable finance framework	Require participating banks to develop and implement ESMSs	Bangladesh, Cambodia, Ghana, Kenya, Mongolia, Nigeria
Policies/ guidelines		Develop standalone ESRM guidelines	Comprehensive approach to encourage ESRM in banks	Bangladesh, Ghana, Nepal
ntation ort	<u>~1</u>	Tools, templates and resources for ESRM	Provide resources to support ESRM implementation in banks	Bangladesh, Mongolia, Nepal
Implementation support		Monitoring and enforcing ESRM implementation	Encourage compliance with ESRM guidelines	Bangladesh, Nigeria









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

 Bangladesh
 so

 Policy Guidelines
 For Green Banking (2011)

 All commercial banks obliged
 to formulate specific polices and

 targets for environmentally sensitive
 sectors, and develop an

 environmental risk management
 manual for assessing and

 monitoring projects and
 working capital loans

Finance Principles The key objective is to strengthen the social and environmental risk capacity of banks

Cambodia Sustainable

Ghana Sustainable Banking Principles

Identifying, measuring, mitigating and monitoring environment and social risks and opportunities in banks' business activities is one of seven principles

k Kenya Sustainable Finance Principles Principle 3. Managing and mitigating associated risks Firms should seek to mitigate social and environmental risks associated with their financing activities through client engagement and effective policies and risk assessment procedures

Mongolia Sustainable Finance Principles ESRM is incorporated throughout, and is also a key component of the 2018 Mongolian Sustainable Finance Roadmap

s Nigeria National Sustainable Banking Principles Principle 1. Environmental and Social Risk Management We will integrate environmental and social considerations into decisionmaking processes relating to our Business Activities to avoid, minimize, or offset negative impacts



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

- 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.
- 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.
- 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.







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:

- 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.
- 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.







Demand and supply side actions have been implemented by SBN members to drive financial inclusion

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







Leading IDA SBN members closely integrate financial inclusion into sustainable finance frameworks

Bangladesh National Financial Inclusion Strategy Bangladesh is in the process of developing its national financial inclusion strategy, where sustainable finance will

be one of its key pillars

Cambodia Sustainable Finance Principles Financial access and literacy included in emerging principles; promoting financial access and financial literacy among rural and low-income people will be covered in the sustainable finance principles

> Ghana Sustainable Banking Principles

'Promoting financial inclusion' is one of seven draft principles; supporting financial inclusion will require capacity building and awareness creation among banks, and a widening of the digital financial space

Mongolia Sustainable Finance Principles Principle 5. Promote financial inclusion We will promote a more inclusive financial system in Mongolia by increasing access to financial products and services, providing financial education, and ensuring consumers are better of protected

Nigeria nd National Sustainable Banking Principles Principle 5. Financial inclusion We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector

SBN Necessary Ambition Report – Addressing Key Priorities



- 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.

Sustainable Banking Network





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	ø	Set minimum targets for investment for banks	Increase the flow of credit through mandating bank loans	Bangladesh, Ghana, Nepal, Nigeria
fir fir	× %	Implement credit schemes and funds	Provide subsidized loans to agriculture and SMEs	Nigeria
: failure	(⁷)	Refinancing facilities for eligible loans	Increase incentives for banks to lend to agriculture and SMEs	Bangladesh
Address market failure		Risk sharing systems for agricultural loans	Reduce banks' exposure to production and market risks	Ghana, Nigeria
Addres	æ	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
	\mathbf{O}	Collaboration with international partners	Benefit from support in improving access to finance	Bangladesh, Nepal

SBN Necessary Ambition Report – Tools



Planning Tool #1: Six best practices for developing sustainable finance in SBN IDA countries

3 Collaborate and engage with key stakeholders in the financial sector to raise awareness and encourage ownership

2 Tailor approaches to developing and implementing sustainable finance frameworks to local market conditions

1

Assess banks' existing awareness & capacity for sustainable finance to inform strategies for sustainable finance development Draft frameworks jointly with stakeholders

Designing

Develop appropriate sustainable finance strategies

Assess banks' sustainable finance capacity Support finance sector to implement framework

Inplementing

Address capacity constraints through awareness raising and

training activities, together with tool

development and

resources

Promote knowledgesharing and peer learning

5

Implement appropriate monitoring practices

Support knowledge-sharing among banks through forums or working groups of sustainable finance champions

6

Level the playing field through appropriate reporting and enforcement measures, such as integrating sustainability measures in regulator ratings



Planning Tool #2: 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

SBN Necessary Ambition Report – Tools



Planning Tool #3: Best practice solutions to overcome common challenges related to developing and implementing sustainable finance framework

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







- Building sustainability into financial systems not only helps manage E&S and climate risks, but also de-risks markets to enable greater investment flows and deepen financial market development.
- In IDA countries, sustainable finance frameworks have the potential to:
 - Enable banks to implement 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 E&S priorities;
 - Extend financial inclusion by delivering financial services to households; and
 - Boost financial flows to priority sectors.
- Sustainable finance frameworks provide an opportunity for IDA countries to increase their market resilience and unlock new green and inclusive investment opportunities.
- SBN IDA countries recognize that transitioning to sustainable financial systems is critical to their futures.







- 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.
- 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 sustainable finance frameworks. Further action and additional international support are needed.
- 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.
- The SBN network can provide invaluable support in assisting IDA members develop sustainable finance frameworks that address the E&S challenges, de-risk investment and unlock green finance at scale.







"Low-income countries are finding that sustainable development is not a choice, but a necessity. Leading practices that reduce environmental & social risk in the financial sector and unlock new investment opportunities offer a powerful pathway to build financial stability and attract investment."

> - **Georgina Baker,** Vice President of IFC & Chair of SBN Secretariat



The SBN members have shown that it is possible to unite public and private financial sectors from a wide array of countries and achieve significant progress in sustainable finance at an accelerated rate, better positioning the world to achieve the SDGs by 2030.

Sustainable

Banking Network



Contact: Batmunkh Batbold: <u>bbatbold@ifc.org</u> SBN Secretariat: <u>SBN Secretariat@ifc.org</u>

SBN activities & publications: www.ifc.org/sbn

SBN webinars: www.ifc.org/sbnwebinars

SBN Necessary Ambition Report: www.ifc.org/SBNnecessaryambition





