# Kenya

## Country Progress Report

April 2022

SUPPLEMENT TO THE 2021 GLOBAL PROGRESS REPORT OF THE SUSTAINABLE BANKING AND FINANCE NETWORK

Sustainable Banking and Finance Network

IFC International Finance Corporation
WORLD BANK GROUP

*Creating Markets, Creating Opportunities*

## Acknowledgements

This Country Progress Report was developed by the SBFN Secretariat under the leadership of the SBFN Measurement Working Group and with guidance from the SBFN Africa Regional Coordinator, Louise Gardiner and Country Coordinator, Damilola Sobo. Data are provided by the Kenya Bankers Association (KBA) and verified by SBFN. The team is grateful for the support and guidance of KBA representatives who provided data, participated in interviews, and reviewed and provided comments to this report, in particular Roselyne Njino, Senior Public Affairs and Communications Officer; and Nuru Mugambi, former Director of Public Affairs.

## About SBFN

Established in 2012, SBFN is a voluntary community of financial sector regulators and industry associations from emerging markets committed to collectively advancing sustainable finance in line with international good practice and national priorities. As of October 2021, SBFN members represented 63 institutions, 43 countries, and $43 trillion (86 percent) of the total banking assets in emerging markets. Members are committed to i) improving the management of environmental, social, governance, and climate change risks in financial sector activities, and ii) increasing capital flows to activities with positive environmental and social impacts, including climate change mitigation and adaptation. For more information, visit www.sbfnetwork.org.

## About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. IFC works in more than 100 countries, using its capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record $31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

# Contents



Note to the reader: All measurement results featured in this document, such as graphs and progression matrixes, are based on data collected up to July 2021. Additional activities up to the publishing date of this country report have been included in narrative form.

# 1. Overall country progress – Kenya

## 1.1 SBFN member institution:

Kenya Bankers Association (KBA)

Member Since: 2015

**Working Groups:**
Measurement
International Development Association Task Force

## 1.2 Other key institutions and national initiatives promoting sustainable finance

Central Bank of Kenya (CBK)
Sustainable Finance Initiative
Green Bond Program
Capital Markets Authority (CMA)
Kenya National Treasury
Nairobi Stock Exchange (NSE)
Kenya Climate Innovation Centre (KCIC)
Kenya Institute of Bankers (KIB)
Financial Sector Deepening Kenya

## 1.3 Overall progress

Kenya has continued to make progress in the "Advancing" sub-stage of the "Implementation" stage of the SBFN Progression Matrix. Kenya's sustainable finance framework has been implemented for a number of years, and it has a series of implementation tools in place, in particular through the Kenya Banking Association-led (KBA) Sustainable Finance Initiative (SFI), including guidance/guidelines, templates (for example reporting), training, online tools, and supervision guidance on how to do all this in practice. Also, financial institutions (FIs) have started sustainable finance reporting on implementation using consistent reporting templates. In 2021, KBA published the 2020 Report on the State of Sustainable Finance in Kenya's Banking Industry, sharing the progress and some key performance indicators of sustainable finance development in the banking sector. In 2021, the Central Bank of Kenya (CBK) issued the Guidance on Climate-related Risk Management to commercial banks and mortgage finance companies, guiding banks to integrate climate-related considerations in decision-making, operation, and reporting.

Figure 1: SBFN Progression Matrix - Overall Country Progress


* Countries within each sub-stage are listed in alphabetical order

## 1.4 Country sustainable finance journey

Figure 2: Kenya's sustainable finance journey

- Policies, principles, regulations, and guidance
- Research and engagement (since last SBFN progress report)
- Examples of market actions and impacts

### 2013-2015

- KBA launches the Sustainable Finance Initiative (SFI) with the support of Kenyan banks to advance the sustainability agenda industry-wide
- KBA joins SBFN
- KBA issues the Kenya Sustainable Finance Principles and Guidelines
- KBA launches Sustainable Finance e-Learning Platform

### 2016-2018

- Kenya National Treasury publishes the National Policy on Climate Finance
- Nairobi Securities Exchange issues Green Bonds Training Material
- KBA publishes first Shared Value Report
- KBA launches Sustainable Finance Catalyst Awards
- KBA, Nairobi Securities Exchange and partners launch Green Bond Program

### 2019

- KBA publishes Kenya Green Bond Guidelines Background Document
- Nairobi Securities Exchange publishes the Kenya Green Bond Market Issuer's Guide
- The Capital Markets Authority (CMA) of Kenya issues Policy Guidance Note on Green Bonds for legal framework for issuing listed and unlisted green bonds
- Capital Markets Authority approves the modification of NSE Listing Rules to incorporate Green Bonds
- National Assembly Finance and Planning Committee introduces to the Finance Bill 2019 a withholding tax exemption on green bonds

### 2020-2021

- CBK and Kenya National Treasury launch National Credit Guarantee Scheme
- KBA Publishes Sustainable Finance Voluntary Report with 22 of 47 banks submitting reports
- Green bond issuance to the value of $40 million
- KBA launches Digital Accessibility for Persons with Disabilities initiative
- KBA publishes the Report on the State of Sustainable Finance in Kenya's Banking Industry
- Kenya National Treasury publishes the Landscape of Climate Finance in Kenya Report, which is the first attempt to track the country's climate finance flows since the Paris Agreement
- CBK issues the Guidance on Climate-Related Risk Management Guidelines
- KBA updates Sustainable Finance Principles and Framework to incorporate CBK Climate Risk Guidelines
- 33 banks submit Digital Accessibility for Persons with Disability roadmaps

## 1.5 COVID response

KBA is part of the National Credit Guarantee scheme which predates COVID-19, but its urgency was redoubled by the pandemic. Thirty percent of this fund is allocated to youth, women, and people with disabilities. Because banks have moved almost exclusively to digital services as a result of the pandemic, and more than 2 million Kenyans are at risk of being excluded, a pilot project in 2020 identified areas in which banks need to improve to be more digitally accessible to people with disabilities. The banks adopted the recommendations identified by the project and are required to submit accessibility roadmaps. At the onset of the pandemic, banks also helped drive digital engagement with small and medium-sized enterprises (SMEs), reaching and supporting about 10,000 businesses.

## 1.6 Ambitions for the next phase

KBA initially relied on voluntary adoption of sustainable finance initiatives, however in order for the key issues to remain on the table, they will need to be underpinned by regulation. For the last few years the focus has been on supporting and building capacity, but at this stage the sector is ready to begin backing up the key issues with regulatory structures. In 2021, KBA released a report that was largely informed by the first Sustainable Finance Initiative (SFI) voluntary reporting, which they did on the advice of the previous SBFN report. Kenya is looking to move towards an integrated reporting framework, and the next frontier, not just for Kenya but for Africa more broadly, will be driven primarily by financial inclusion.

## 1.7 SBFN and IFC role

IFC has provided advisory services to KBA for their sustainable finance initiatives and capacity building. Through SBFN, KBA has shared its experience with other SBFN members and benefited from the collective SBFN knowledge base.

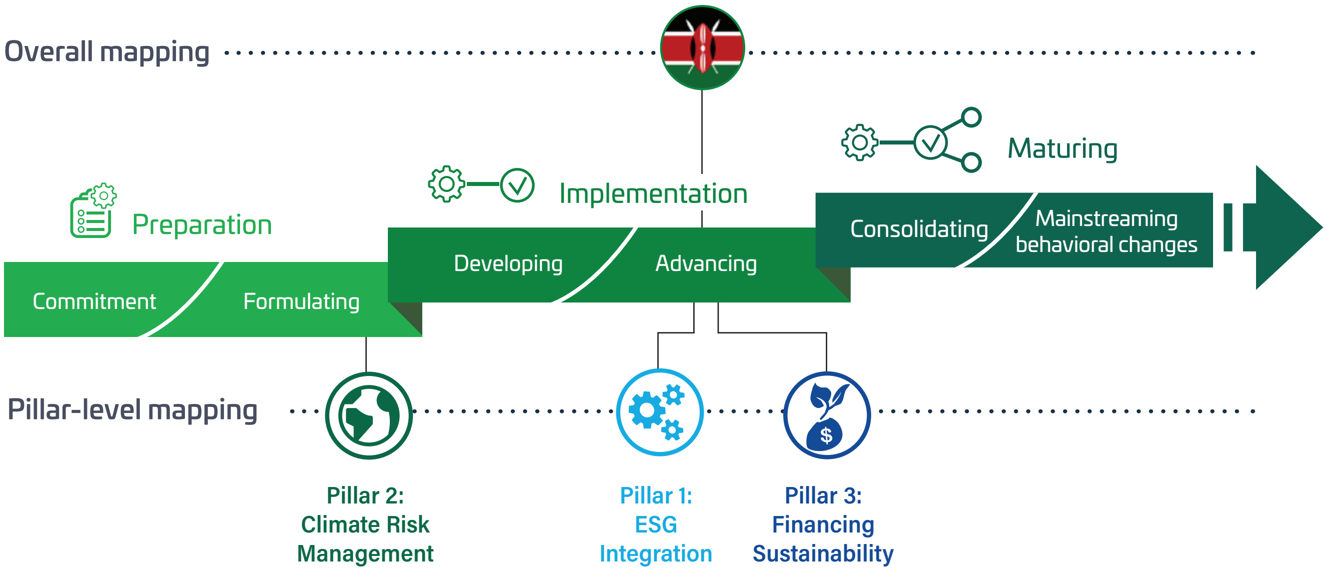
> Kenya Bankers Association, through its Sustainable Finance Initiative with the support from the Sustainable Banking and Finance Network, has influenced the operating landscape of Kenya's banking industry for the better. Today, more than 36 thousand banks staff are cognizant of their critical role in managing and mitigating ESG risks associated with their lending activities. This can be attributed directly to the sustained capacity building efforts by KBA's Sustainable Finance Initiative.

**Dr. Habil Olaka, EBS**
**CEO**
**Kenya Bankers Association**

KENYA BANKERS
ASSOCIATION

# 2. Progress by three pillars

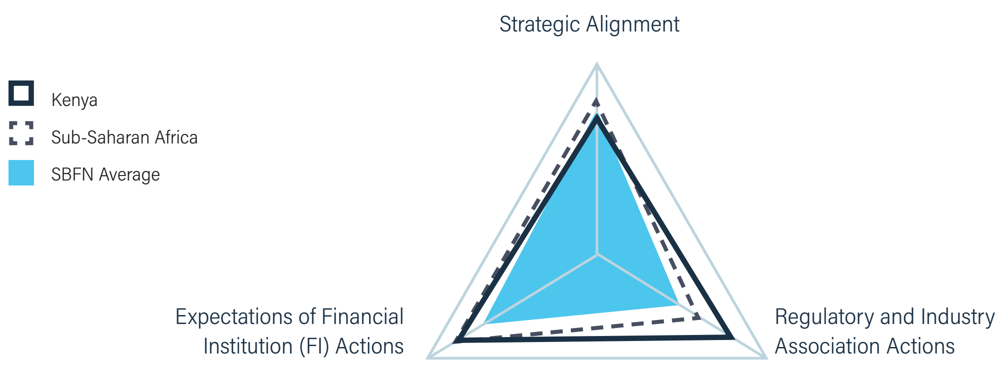
Figure 3: Mapping of overall country progress and individual pillar progress




## Pillar 1: ESG Integration

**Pillar Progress: Advancing**

Kenya is mapped under the **"Advancing" sub-stage of the "Implementation" stage** for the ESG Integration Pillar. There is an existing national framework addressing the integration of ESG risk and performance considerations into the practices of FIs. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and FIs report on their ESG implementation with consistent reporting instructions or templates.




### Sub-pillar 1: Strategic Alignment

- Kenya's national frameworks for the banking sector, for example the Sustainable Finance Principles and Guidelines (KBA, 2015) set out expectations for integrating the consideration of ESG risks and performance.
- The Kenyan financial sector's approach to ESG integration is in alignment with international good practices and standards, such as the UN Global Compact, IFC Performance Standards, and Equator Principles.
- The framework was developed and/or implemented in close consultation with stakeholders.

**Sub-pillar 2: Regulator and Industry Association Actions**

- Kenya's sustainable finance framework is supported with implementation guidance and technical tools, including the Sustainable Finance Initiative's Best Practice Standards described in the Kenya Sustainable Finance Principles and Guidelines..
- The implementation of the framework is regularly monitored by KBA, supported by its data collection approach.
- In October 2020, the Kenya Institute of Bankers certified and updated the Sustainable Finance Initiative (SFI) e-learning training.
- In March 2021, KBA published the 2020 Report on the State of Sustainable Finance in Kenya's Banking Industry, capturing the banking industry's gains in embracing sustainable finance practices and highlighting areas of opportunity for policy intervention.

**Sub-pillar 3: Expectations for FI Actions**

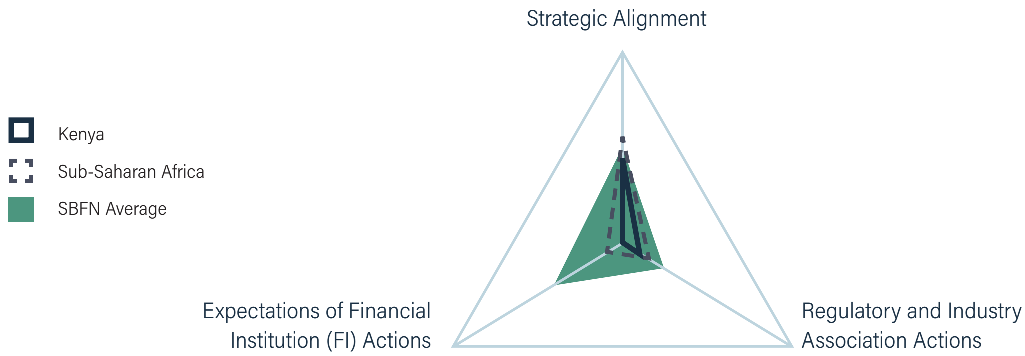
- The Kenya Sustainable Finance Principles and Guidelines require FIs to develop policies and procedures to manage ESG risks and performance and report ESG performance both to the regulator and publicly.
- In 2019, KBA initiated a Sustainable Finance Initiative voluntary reporting exercise aimed at establishing a baseline on the progress the banking industry had made in implementing the SFI Guiding Principles.

## Pillar 2: Climate Risk Management

### Pillar Progress: Formulating

Kenya is in the **"Formulating" sub-stage of the "Preparation" stage** of the Climate Risk Management Pillar. In 2015, KBA issued the Sustainable Banking Principles and Guidelines, which emphasize the banking sector's concern for the impacts of climate change in Africa in the context of Kenya's national climate policies and international climate commitments under the United Nations Framework Convention on Climate Change (UNFCCC). The Principles include requirements for the management and disclosure of environmental and social risk in the banking sector. Preparations and activities include research, surveys, and/or multi-stakeholder engagement and awareness raising on expectations for climate risk management.

In 2021, CBK issued the Guidance on Climate-Related Risk Management[1] to commercial banks and mortgage finance companies, enabling banks to integrate the climate-related opportunities and risks in their governance structure, strategy, and risk management frameworks. Further, it will guide these institutions in disclosing climate-related information to their stakeholders.




**Sub-pillar 1: Strategic Alignment**

- Addressing climate change risks is a national priority, as indicated in Kenya's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies, including the National Climate Change Action Plan (NCCAP 2018-2022). In the financial sector, in 2015, KBA issued the Sustainable Banking Principles and Guidelines, which reference the issue of climate change and include a principle on ESG risk management for the banking sector.

**Sub-pillar 2: Regulatory and Industry Association Actions**

- The Sustainable Banking Principles and Guidelines reference ESG risk management as part of credit analysis in Principle 3: Managing and Mitigating Associated Risks. The introduction to the principles notes the banking sector's concern for the impacts of climate change in Africa and references national climate policies in the context of priority sectors for climate action, including agriculture, forestry, energy, extractive industries, transportation, and tourism. It also mentions the National Climate Change Action Plan (NCCAP 2018-2022), which calls for building the in-house capacity of FIs to assess climate risk and develop climate-related finance.
- In 2021, at the European Union-Kenya Green Diplomacy Conference, the governor of the Central Bank of Kenya (CBK) signaled the importance of managing climate risks and CBK's intention to incorporate climate risk into the prudential surveillance framework under financial stability and to promote alignment with the Task Force on Climate-related Financial Disclosures (TCFD).
- As part of future progress for Kenya, recommended areas of focus for regulatory and industry association actions include research, capacity building, technical guidance (for example, climate scenarios, risk assessment methodologies), and development of regulatory and supervisory expectations for FIs for managing climate-related physical and transition risks and financial impacts.
- In terms of awareness raising for Environmental

1 This Guidance was issued in October, after the report data collection and analysis cut-off date of July 31, 2021. Therefore, it was not included in the benchmarking process nor the consideration of the overall and pillar-level progression matrix mapping.

and Social (E&S) and climate risks, KBA promotes engagement on E&S and climate issues through the Sustainable Finance Initiative, and in 2020 released the Report on the State of Sustainable Finance in Kenya's Banking Industry which acknowledges the increasing importance of managing climate risks and impacts, and of mobilizing capital for projects with climate mitigation and adaptation objectives.

- KBA is currently initiating research on environmental risk assessment and integration with financial decision making as part of credit, legal, and reputational risk management; the study concept includes consideration of climate-related risks.

**Sub-pillar 3: Expectations for FI Actions**

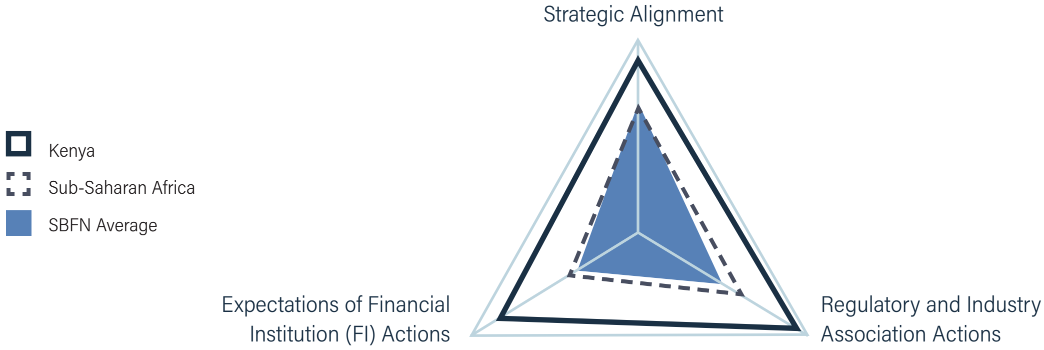
- Application of the Sustainable Banking Principles and Guidelines for E&S risk management serves to build familiarity and capacity among Kenyan FIs regarding climate risk management practices as part of overall ESG risk management approaches.
- As part of future progress, the ESG-based framework can be further elaborated to guide the expected actions of FIs for the development of their strategy, governance, risk management, metrics/targets, and disclosure approaches for climate-related physical and transition risks and financial impacts. CBK has signaled its intention to work with the financial sector to develop guidelines on climate risk assessment and embedding climate related financial reporting disclosures, in alignment with the TCFD. In 2021 (after the data collection and analysis period for this report), CBK issued the Guidance on Climate-Related Risk Management to commercial banks and mortgage finance companies

## Pillar 3: Financing Sustainability

**Pillar progress: Advancing**

Kenya is mapped under the **"Advancing" sub-stage of the "Implementation" stage** for the Financing Sustainability Pillar. Its national sustainable finance framework for directing financial flows into green, social, climate, and sustainability-linked projects has implementation tools and initiatives in place, and FIs have started reporting financial sustainability performance in line with consistent reporting instructions/templates. The KBA-led Sustainable Finance Initiative (SFI) Industry Guiding Principles promotes both ESG risk management and sustainability financing.

### Sub-pillar 1: Strategic Alignment




- Kenya's national framework for financing sustainability covers both the banking sector and capital markets, led by KBA and its Sustainable Finance Principles and Guidelines for the banking sector (2015), and the National Treasury and its Policy on Climate Finance (2016), the Nairobi Securities Exchanges and its Green Bond Market Issuer's Guide (2019). The National Policy on Climate Finance establishes the legal, institutional and reporting frameworks to access and manage climate finance.
- The Kenyan financial sector's approach to promoting financial flows into green and sustainability projects and sectors is in alignment with international good practices and standards, such as the UN Sustainable Development Goals and the Climate Bond Initiative's Climate Bond Taxonomy.
- The Kenyan financial sector's approach to financing sustainability is also aligned with its national goals and strategies, including the National Determined Contributions. It also identifies key stakeholders and promotes engagement.

### Sub-pillar 2: Regulatory and Industry Association Actions

- Kenya's framework asks financial sector regulators and associations to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects. For example, the National Policy on Climate Finance lists five objective areas that the National Treasury will lead and facilitate.
- The Kenya Green Bond Guidelines Background document, the Green Bond Listing Rules, and the Green Bond Market Issuer's Guide provide a taxonomy of green finance assets, guidelines for issuance of green bonds, and require external party verification to ensure the credibility of green bonds.
- The Nairobi Securities Exchange and the KBA monitor information reported by FIs related to financing sustainability to prevent greenwashing. To provide financial incentives, the governance exempts investors from paying withholding taxes on their interest earnings from such bonds (25, Kenya Green Bond Market Issuer's Guide). The 2019 National Assembly Finance and Planning Committee introduced to the Finance Bill 2019 a withholding tax exemption on green bonds. KBA also organizes various awards to recognize leaders and good practices in promoting green/sustainable finance.

- KBA collects data from FIs and other sources about allocation of capital to green/social/sustainability projects and publishes this in its Sustainable Finance Report.

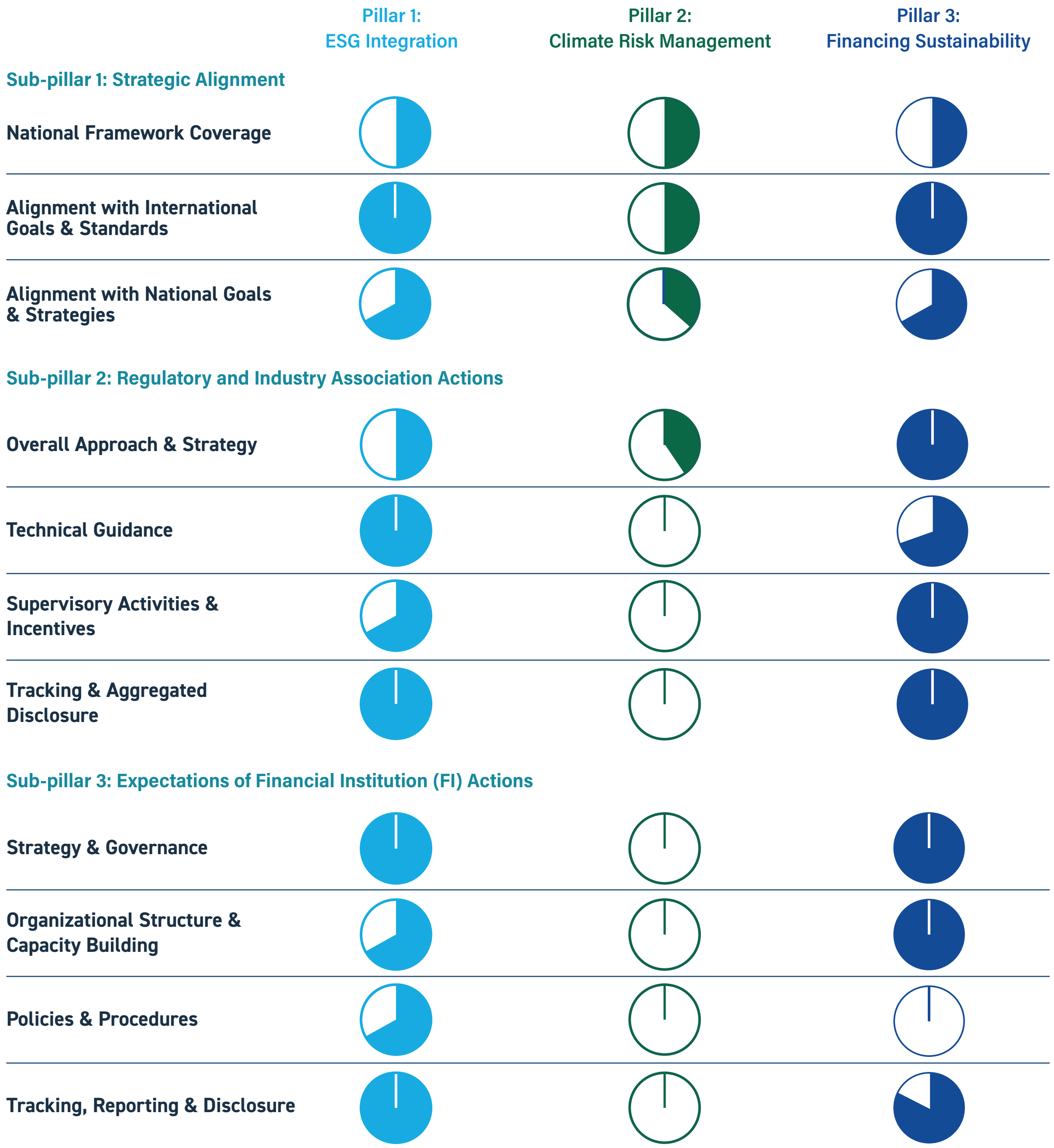
**Sub-pillar 3: Expectations for FI Actions**

- Principle 5 of the Kenya Sustainable Finance Initiative Industry Guidelines asks that, in the board planning process:

  ...there is the need for reorienting growth strategies and the organizational vision, mission and objectives to ensure that equal weight is given to the economic, social and environmental dimensions of organizational sustainability.
- The Kenya Sustainable Finance Principles and Guidelines ask FIs to define internal staff roles and responsibilities to incorporate sustainable finance principles and procedures across targeted departments, including finance, credit risk, business department, operations, and compliance. It also asks FIs to develop and maintain internal staff-related capacity through regular training and learning.
- The Kenya Sustainable Finance Principles and Guidelines require FIs to obtain and disclose an independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments. The Nairobi Stock Exchange listing rules require FIs to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green bonds through the submission of the information memorandum. The Industry Guiding Principles also require FIs to report publicly on their green, social, and sustainability-focused finance activities and positive outcomes or impacts.

# 3. Progress by three sub-pillars and 11 indicators

Figure 4: Overview of Kenya's sustainable finance coverage in three framework areas



# 4. Library of national sustainable finance framework documents

**National strategies, roadmaps, policies, voluntary principles, regulations, guidelines, research, templates, and tools that provide an enabling framework for sustainable finance**

- **Guidance on Climate-Related Risk Management** (CBK, 2021)
- **2020 Report on the State of Sustainable Finance in Kenya's Banking Industry** (KBA, 2021)*
- **The Landscape of Climate Finance in Kenya Report** (Kenya National Treasury, 2021)*
- **Policy Guidance Note on Green Bonds** (CMA, 2019)
- **Green Bond Guidelines Background Document** (KBA, 2019)
- **Green Bond Market Issuer's Guide** (NSE, 2019)
- **Green Bonds Training Material** (NSE, 2018)*
- **National Policy on Climate Finance** (Kenya National Treasury, 2016)
- **Sustainable Finance Principles and Guidelines** (KBA, 2015)

**Download framework documents and check for updates at** www.sbfnetwork.org/library

* Not a policy-document, but a key sustainable finance disclosure or stakeholder engagement material.

# 5. SBFN measurement framework and methodology

## About SBFN

Established in 2012, the Sustainable Banking and Finance Network (SBFN) is a unique, voluntary community of financial sector regulatory agencies and industry associations from emerging markets committed to advancing sustainable finance in line with international best practice. SBFN is facilitated by IFC as secretariat, and supported by the World Bank Group.

As of October 2021, SBFN comprised 43 member countries representing over US$43 trillion and 86 percent of total banking assets in emerging markets. Members are committed to collectively driving measurable change.

## Why a measurement framework?

In 2016, members requested a systematic comparison of country approaches to developing national sustainable finance frameworks. The SBFN Measurement Working Group was established to convene member inputs on the design of a common framework to benchmark country progress and accelerate peer-to-peer knowledge exchange. The Framework is designed to inform the biennial SBFN Global Progress Report.

## An evolving framework

The SBFN Measurement Framework reflects the activities, strategies, and tools that members use to promote sustainable finance in their countries. It evolves to match advances in country initiatives. It also incorporates the latest international standards and best practices identified by members as important to their efforts.

## A member-led approach

The Framework was designed with extensive member input under the leadership of the Measurement Working Group and Co-Chairs. Updates to the Framework are guided by the Measurement Working Group and agreed by all SBFN Members.

## Data collection in partnership with members

As of 2021, data collection for the SBFN Global Progress Report relies on member country reporting in line with the updated Measurement Framework. Information is supported by evidence, which is verified by the SBFN secretariat in collaboration with third-party service providers. Evaluation and milestones are objective and transparent. Members approve the final Global and Country Progress Reports.

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The Framework can be used as:

- a **mapping tool** to capture the dynamic interaction of collective insights, market-based actions, and policy leadership demonstrated by SBFN members as they move their financial markets toward sustainability;
- a **benchmarking tool** for SBFN members to learn from and compare peer approaches, track and review progress against global benchmarks, develop common concepts and definitions, and leverage innovations and strengths; and
- a **forward planning and capacity building tool** to identify future policy pathways and capacity building needs.

The Measurement Framework is based on three intersecting themes in sustainable finance. For each theme, it assesses regulatory guidance, supervision strategies, disclosure requirements, and voluntary industry approaches.

**ESG Integration** refers to the management of environmental, social, and governance (ESG) risks in the governance, operations, lending, and investment activities of financial institutions.

**Climate Risk Management** refers to new governance, risk management, and disclosure practices that financial institutions can use to mitigate and adapt to climate change.

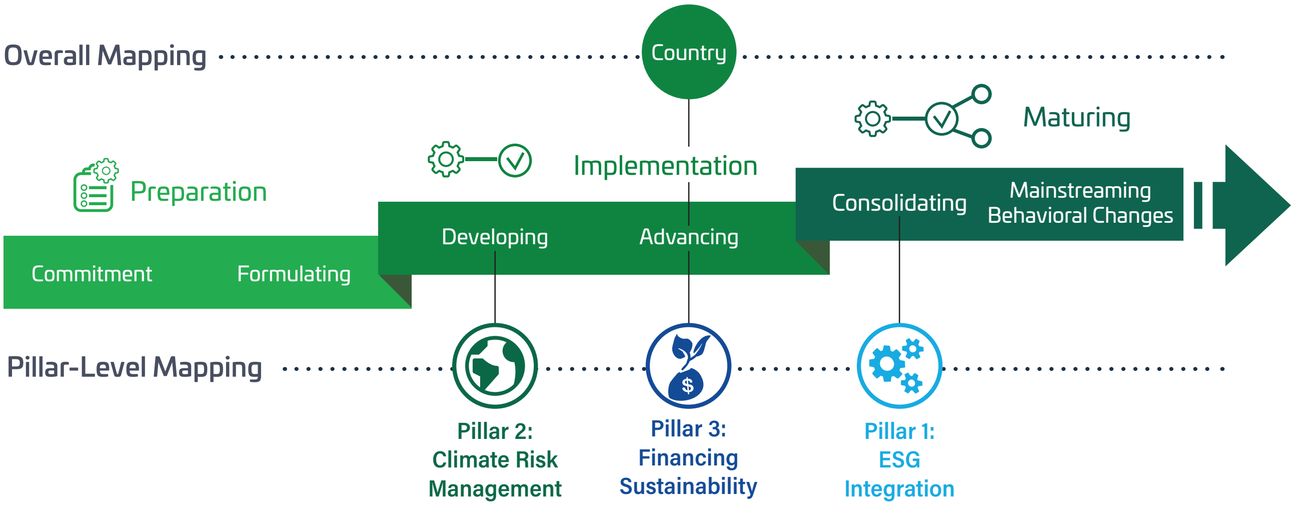
**Financing Sustainability** refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance, taxonomies, monitoring, and incentives.

# The Measurement Framework consists of three complementary components:

## 1. Progression matrices

Drawing on SBFN members' common development paths and milestones, the **SBFN Progression Matrix** provides an overview of market-wide progress for all SBFN countries across three typical stages of development. It allows each SBFN member to review its own progress and identify the strengths and weaknesses of its approach.

The stage mapping is based on qualitative milestones and quantitative analysis related to (i) progress in developing and implementing national policies and principles, and (ii) industry uptake and practices. In the 2021 report, in addition to the Overall Progression Matrix, three pillar-level matrices are added to reflect a country's development process in each of the pillar areas.




## 2. Pillar benchmarking

A dynamic assessment is conducted across several priority pillars of sustainable finance, using qualitative and quantitative datapoints to assess progress and allow comparison across countries. Three pillars, three cross-cutting sub-pillars, 11 cross-cutting indicators, and 75 underlying datapoints are used to objectively assess a country's sustainable finance framework(s), according to clarity, depth, and alignment to international good practice.

| | Pillar 1: ESG Integration / Pillar 2: Climate Risk Management / Pillar 3: Financing Sustainability |
|---|---|
| Sub-pillar 1: Strategic Alignment | • National framework<br>• Alignment with international goals and standards<br>• Alignment with national goals and strategies |
| Sub-pillar 2: Regulatory and Industry Association Actions | • Overall approach and strategy<br>• Technical guidance<br>• Supervisory activities and incentives<br>• Tracking and aggregated disclosure |
| Sub-pillar 3: Expectations of Financial Institution (FI) Actions | • Strategy and governance<br>• Organizational structure and capacity<br>• Policies and procedures<br>• Tracking, reporting, and disclosure |

## 3. Sector data and case studies

In 2021, data collection included an exploratory request for quantitative data points — where available — for the number and percentage of financial institutions that are implementing ESG integration as well as climate risk management and disclosure; and the total value of green, social, and sustainability bond issuance. Detailed case studies were also collected of innovative approaches by regulators and industry. Case studies will be published in a new on-line case study catalogue.

SBFN on-line case study catalogue
Coming soon

## SBFN Measurement Framework pillars, sub-pillars, indicators, and underlying datapoints

| Sub-pillar | Indicator | No. | Underlying datapoint |
|---|---|---|---|
| **Pillar 1: ESG Integration** | | | |
| Strategic Alignment | National framework[1] (e.g. policies, roadmaps, guidance, regulations, voluntary principles, templates, or tools) | 1 | Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of environmental, social, and governance (ESG) risks and performance? |
| | | 2 | Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance or other non-lending FIs that sets out expectations for integrating the consideration of ESG risks and performance? |
| | Alignment with international goals and standards | 3 | Does the Framework make reference to international sustainable development frameworks or goals? |
| | | 4 | Does the Framework make reference to established international ESG risk management standards and principles for FIs? |
| | Alignment with national goals and strategies | 5 | Does the Framework make reference to specific national development objectives, plans, policies, goals, or targets? |
| | | 6 | Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design and/or implementation related to ESG integration? |
| | | 7 | Does any inter-agency data sharing currently exist related to ESG integration by FIs? |
| Regulatory and Industry Association Actions | Overall approach and strategy | 8 | Does the Framework provide guidance on the role of the regulator or industry association with regard to assessing and managing ESG risk and performance in the financial sector? |
| | | 9 | Has the regulator or industry association undertaken market assessment to identify systemic ESG risks through analysis of the portfolios of supervised entities/members and published the results? |
| | Technical guidance | 10 | Does the Framework provide technical guidance or tools to support implementation of ESG risk and performance management by the financial sector? |
| | Supervision activities and incentives | 11 | Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association? |
| | | 12 | Does the regulator or industry association provide any financial or non-financial incentives for FIs to manage ESG performance as part of the Framework? |
| | | 13 | Does the regulator or industry association apply any disincentives/penalties for non-compliance by FIs in terms of expectations from the regulator and/or industry association related to ESG risk management as part of the Framework? |
| | Tracking and aggregated disclosure | 14 | Has the regulator or industry association established a data collection approach and database to track or regularly publish data related to ESG integration by FIs as part of the Framework? |
| Expectations of FI Actions | Strategy and governance | 15 | Does the Framework require/ask the FI's board of directors (or highest governing body) to approve an ESRM and/or ESG integration strategy, and to supervise its implementation? |
| | Organizational structure and capacity | 16 | Does the Framework require/ask FIs to allocate resources/budget commensurate with portfolio ESG risks and define roles and responsibilities for ESG integration within the organization? |
| | | 17 | Does the Framework require/ask FIs to develop and maintain the ESG expertise and capacity of staff commensurate with portfolio ESG risks through regular training and learning? |
| | | 18 | Does the Framework require/ask FIs to create incentives for managers to reduce the ESG risk-level of the portfolio over a specified timeframe? |
| | Policies and procedures | 19 | Does the Framework require/ask FIs to develop policies and procedures to identify, classify, measure, monitor, and manage ESG risks and performance throughout the financing cycle at the client level and/or the transaction/project level? |
| | | 20 | Does the Framework require/ask FIs to undertake a regular review and monitoring of ESG risk exposure at aggregate portfolio level? |
| | | 21 | Does the Framework require/ask FIs to establish and maintain an external inquiry/complaints/grievance mechanism for interested and affected stakeholders in relation to ESG practices? |
| | Tracking, reporting, and disclosure | 22 | Does the Framework require/ask FIs to report ESG risks and performance to the regulator or industry association? |
| | | 23 | Does the Framework require/ask FIs to report on ESG integration publicly? |
| | | 24 | Does the Framework require/ask FIs to track credit risk (e.g. loan defaults) and/or financial returns in relation to ESG risk level? |
| **Pillar 2: Climate Risk Management** | | | |
| Strategic Alignment | National framework | 25 | Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy? |
| | | 26 | Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy? |
| | Alignment with international goals and standards | 27 | Does the Framework make reference to international agreements or frameworks to address climate? |
| | | 28 | Does the Framework recognize or align with established regional or international good practice for climate risk management and disclosure by FIs? |
| | Alignment with national goals and strategies | 29 | Has the regulator or industry association aligned the Framework with national goals to address climate change in line with the country's Nationally Determined Contributions (NDCs) to the Paris Agreement? |
| | | 30 | Does any cooperation exist between agencies, or between government and industry association, with respect to policy design or implementation related to climate risk management? |
| | | 31 | Does any inter-agency data sharing currently exist related to climate risk management by FIs? |

1 **National framework** refers to the collective set of policies, roadmaps, guidance, regulations, and/or voluntary principles issued by national regulators or industry associations in relation to each pillar of sustainable finance. SBFN recognizes that national frameworks for sustainable finance vary from country to country and are influenced by national priorities and characteristics. They are also often interdependent with other national roadmaps, policies, and regulations. Countries vary in their starting points and the types of documents to kickstart the enabling framework. For instance, initial frameworks could choose to focus on ESG risk management and/or sustainable finance opportunities such as green bonds. They could also focus on banking, capital markets, or institutional investors. The variety of SBFN frameworks provides a rich source of inspiration for peer learning and collaboration.

| | | | |
|---|---|---|---|
| Regulatory and Industry Association Actions | Overall approach and strategy | 32 | Has the regulator or industry association undertaken research on historical impacts to the economy and financial sector from climate change, and/or future expected impacts resulting from physical and transition climate risks? |
| | | 33 | Does the Framework identify key sources of GHG emissions – such as in particular sectors – as priorities in the proactive management of climate risks by the financial sector? |
| | | 34 | Does the Framework incorporate the conservation/restoration of natural carbon sinks (such as oceans, forests, mangroves, grasslands, and soils) as an important part of reducing climate change risks (e.g., through guidelines, scenario analysis, targets, or incentives for FIs)? |
| | | 35 | Has the regulator or industry association developed an internal strategy to address climate risk, and/or embedded climate risk management into its governance, organizational structures, and budget as part of the Framework? |
| | | 36 | Has the regulator or industry association undertaken any activities to expand and deepen analytical understanding of national and/or cross-border physical and transition climate risks, and to raise awareness as to how these risks may transmit to, and impact, the financial sector? |
| Regulatory and Industry Association Actions | Technical guidance | 37 | Has the regulator or industry association developed risk assessment approaches, methodologies, or tools to understand and assess the financial sector's exposure to climate risk as part of the Framework? |
| | Supervisory activities and incentives | 38 | As part of the Framework, has the regulator clarified supervisory expectations with regard to climate risk management by FIs, including consideration of international good practices? |
| | | 39 | Has the regulator started to explicitly embed climate-related risk in supervisory activities and review processes as part of the Framework? |
| | | 40 | Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association? |
| | | 41 | Are there any financial or non-financial incentives to encourage FIs to establish climate risk management systems? |
| | Tracking and aggregated disclosure | 42 | Does the regulator or industry association regularly collect and/or report market-level and/or FI-level data on climate-related financial sector risks as part of the Framework? |
| Expectations of FI Actions | Strategy and governance | 43 | Does the Framework require/ask FIs to establish a strategy for climate risk management with responsibility at the board of director level (or highest governing body)? |
| | Organizational structure and capacity | 44 | Does the Framework require/ask FIs to define the roles and responsibilities and related capacities of the FI's senior management and operational staff in identifying, assessing, and managing climate-related financial risks and opportunities? |
| | Policies and procedures | 45 | Does the Framework require/ask FIs to expand existing risk management processes to identify, measure, monitor, and manage/mitigate financial risks from climate change? |
| | Tracking, reporting, and disclosure | 46 | Does the Framework require/ask FIs to report on their overall approaches to climate risk management in line with international good practices (e.g. TCFD), or establish a timeline by which FIs should begin to align their reporting with such practices? |
| | | 47 | Does the Framework require/ask FIs to identify, measure, and report on exposure to sectors which are vulnerable to transition risk and physical risk? |
| | | 48 | Does the Framework require/ask FIs to adopt and report on performance targets to reduce portfolio greenhouse gas (GHG) emissions on a regular basis? |
| | | 49 | Does the Framework require/ask FIs to adopt and report on performance targets to reduce exposure to climate change risks at the portfolio level on a regular basis? |
| **Pillar 3: Financing Sustainability** | | | |
| Strategic Alignment | National framework | 50 | Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy? |
| | | 51 | Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy? |
| | Alignment with international goals and standards | 52 | Has the regulator or industry association developed a strategy, regulations, or set of frameworks for stimulating the allocation of capital to sustainable assets, projects, and related sectors in line with global goals, such as the Sustainable Development Goals (SDGs)? |
| | | 53 | Does the Framework recognize and/or align with existing standards, voluntary principles, or market good practices related to sustainable finance instruments? |
| | Alignment with national goals and strategies | 54 | Does the Framework enable the achievement of stated national objectives by guiding capital to sectors, assets, and projects that have environmental and social benefits in line with national sustainable development priorities, strategies, targets, and the size of sustainable investment needs, and taking into account the local barriers to scaling-up sustainable finance? |
| | | 55 | Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design or implementation related to sustainable finance flows? |
| | | 56 | Does any inter-agency data sharing currently exist related to stimulating and monitoring sustainable finance flows? |
| Regulatory and Industry Association Actions | Overall approach and strategy | 57 | Does the Framework require/ask the regulator or industry association to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects? |
| | Technical guidance | 58 | Does the Framework provide definitions, examples, and/or a taxonomy (catalogue and guidelines) of sustainable finance assets? |
| | | 59 | Does the Framework provide guidelines for extending green, social, or sustainability-focused loans (excluding bonds)? |
| | | 60 | Does the Framework provide guidelines for issuance of green, social, or sustainability bonds? |
| | | 61 | Does the Framework require/ask for external party verification to ensure the credibility of sustainability instruments? |
| | Supervisory activities and incentives | 62 | Does the regulator or industry association monitor information reported by FIs related to green/social/sustainability investment, lending, and other instruments to prevent greenwashing and social-washing? |
| | | 63 | Are there any financial or non-financial incentives for FIs to develop and grow green, social, or sustainability finance instruments? |
| | Tracking and aggregated disclosure | 64 | Does the regulator or industry association collect and/or publish data from FIs or other sources about allocation of capital to green/social/sustainability assets, projects, or sectors? |

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| Expectations of FI Actions | Strategy and governance | 65 | Does the Framework require/ask FIs to establish a strategy, governance, or high-level targets, including at the Board of Directors level, for capital allocation to sustainable assets, projects, or sectors? |
| | Organizational structure and capacity building | 66 | Does the Framework require/ask FIs to define internal staff roles and responsibilities to encourage finance flows to green, social, and/or sustainability-focused investments? |
| | | 67 | Does the Framework require/ask FIs to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning? |
| | Policies and procedures | 68 | Does the Framework require/ask FIs to put in place policies and procedures for defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products? |
| | | 69 | Does the Framework require/ask FIs to appoint an independent external reviewer to confirm that the FI's internal framework meets the requirements of the recognized national framework and regulations, or aligns to international standards? |
| | | 70 | Does the Framework require/ask that FIs create incentives for managers to increase sustainable loans or investments in the portfolio? |
| | Tracking, reporting, and disclosure | 71 | Does the Framework require/ask FIs to publish annual updates on the performance and impacts of the sustainability instruments in compliance with relevant national and/or international standards? |
| | | 72 | Does the Framework require/ask FIs to obtain and disclose independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments? |
| | | 73 | Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability loans? |
| | | 74 | Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on green, social, and/or sustainability bonds or other positive impact investments? |
| | | 75 | Does the Framework require/ask FIs to report publicly on their green, social, and sustainability-focused finance activities and positive outcomes or impacts (i.e. not only to the regulator or shareholders)? |

| | | | |
|---|---|---|---|
| Expectations of FI Actions | Strategy and governance | 65 | Does the Framework require/ask FIs to establish a strategy, governance, or high-level targets, including at the Board of Directors level, for capital allocation to sustainable assets, projects, or sectors? |
| | Organizational structure and capacity building | 66 | Does the Framework require/ask FIs to define internal staff roles and responsibilities to encourage finance flows to green, social, and/or sustainability-focused investments? |
| | | 67 | Does the Framework require/ask FIs to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning? |
| | Policies and procedures | 68 | Does the Framework require/ask FIs to put in place policies and procedures for defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products? |
| | | 69 | Does the Framework require/ask FIs to appoint an independent external reviewer to confirm that the FI's internal framework meets the requirements of the recognized national framework and regulations, or aligns to international standards? |
| | | 70 | Does the Framework require/ask that FIs create incentives for managers to increase sustainable loans or investments in the portfolio? |
| | Tracking, reporting, and disclosure | 71 | Does the Framework require/ask FIs to publish annual updates on the performance and impacts of the sustainability instruments in compliance with relevant national and/or international standards? |
| | | 72 | Does the Framework require/ask FIs to obtain and disclose independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments? |
| | | 73 | Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability loans? |
| | | 74 | Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on green, social, and/or sustainability bonds or other positive impact investments? |
| | | 75 | Does the Framework require/ask FIs to report publicly on their green, social, and sustainability-focused finance activities and positive outcomes or impacts (i.e. not only to the regulator or shareholders)? |

Figure 5: Overall Progression Matrix Milestones

### Preparation

#### Commitment

The financial sector regulator or industry association has announced a formal commitment to achieve progress on Sustainable Finance in the next two years.

Initial steps have been taken, such as a kick-off meeting or workshop with key stakeholders and industry.

#### Formulating

A formal initiative — led by a financial sector regulator or industry association or both — is in progress to develop a national roadmap, framework, policy, or voluntary industry principles on Sustainable Finance.

Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.

### Implementation

#### Developing

A first national roadmap, framework, policy, regulation, or set of voluntary industry principles on Sustainable Finance has been formally launched.

A formal taskforce or dedicated unit is leading implementation efforts — either within the regulator or industry association, or as a multi-stakeholder working group or platform.

The Sustainable Finance initiative is acknowledged or supported by both regulators and industry.

Awareness raising and capacity building have been conducted.

#### Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions.

The national Sustainable Finance framework covers multiple parts of the financial system.

Financial institutions report on their implementation of the roadmap, framework, policy, or voluntary principles in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

### Maturing

#### Consolidating

A comprehensive set of national Sustainable Finance initiatives and frameworks are in place, covering all parts of the financial system.

The national frameworks are aligned with international good practice across all three pillars of Sustainable Finance.

Consistent and comparable data is being collected by the regulator as part of supervision — or by the industry association, about implementation by financial institutions.

#### Mainstreaming Behavioral Changes

There is an established ecosystem of Sustainable Finance initiatives and frameworks that align and integrate with each other.

Financial institutions are required or encouraged to report publicly on their implementation of Sustainable Finance across risk and opportunity.

The regulator or industry association has multi-year data on implementation by financial institutions — including both risk and opportunity. Data includes information on the benefits of Sustainable Finance.

Figure 6: Progression Matrix Milestones – Pillar 1: ESG Integration

### Preparation

#### Commitment

The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, guidelines, or voluntary principles for the financial sector on integrating the management of environmental, social, and governance (ESG) risks and performance (ESG Integration).

A first event or workshop has been held to engage relevant financial sector stakeholders on the topic of ESG Integration for the financial sector.

#### Formulating

A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles on ESG Integration for the financial sector.

Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.

### Implementation

#### Developing

A first national policy, regulation, guidelines, or set of voluntary principles has been formally launched that sets out requirements or recommendations for financial institutions on ESG Integration.

A formal taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry.

Activities include awareness raising and capacity building for financial institutions on the new expectations for ESG Integration.

#### Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions.

The ESG Integration expectations cover multiple parts of the financial system.

Financial institutions report on their implementation of ESG Integration in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

### Maturing

#### Consolidating

A comprehensive national initiative or set of frameworks are in place that promote ESG Integration across all parts of the financial system.

The national frameworks cover all three cross-cutting areas of ESG Integration:

1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of financial institution actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to ESG Integration and the resulting benefits.

#### Mainstreaming Behavioral Changes

The national frameworks for ESG Integration are aligned with international good practice and national regulations; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for ESG Integration and are reporting on their efforts.

Extensive data are becoming available on trends among financial institutions regarding practices in ESG Integration and the resulting benefits.

Figure 7: Progression Matrix Milestones – Pillar 2: Climate Risk Management

| Preparation | | Implementation | | Maturing | |
|---|---|---|---|---|---|
| Commitment | Formulating | Developing | Advancing | Consolidating | Mainstreaming Behavioral Changes |
| The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, or voluntary principles on Climate Risk Management for the financial sector.<br><br>Initial awareness raising and knowledge sharing is being organized by the regulator or industry association. | A formal initiative is in progress to develop or refine a national policy, regulation, guidelines, or voluntary industry principles on Climate Risk Management for the financial sector — either as part of an existing ESG framework or as a standalone framework.<br><br>Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector. | A national policy, regulation, guidelines, or set of voluntary industry principles is in place that includes requirements and/or recommendations for the financial sector to manage climate risk — either as part of ESG Integration or as a standalone framework.<br><br>A formal taskforce, working group, or institution is taking the lead with implementation and/or supervision, and is supported by regulators and industry.<br><br>Activities include awareness raising, research, guidance and/or capacity building for financial institutions on managing climate-related physical and transition risks in line with the new expectations in the national framework. | Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions to help the financial sector manage climate-related physical and transition risks.<br><br>Financial Institutions report on their approach to Climate Risk Management in line with consistent reporting instructions or templates provided by the financial sector regulator and/or industry association and reflecting international practices. | A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to manage climate risk.<br><br>The national frameworks cover all three cross-cutting areas of Climate Risk Management:<br>1. strategic alignment,<br>2. regulatory and industry association actions, and<br>3. expectations of financial institution actions.<br><br>Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to Climate Risk Management and the resulting benefits. | The national frameworks for Climate Risk Management are aligned with international good practice expectations and national climate change commitments; and are consistent across different parts of the financial sector.<br><br>Local financial institutions demonstrate that they have embedded the requirements for climate risk management and are reporting on their efforts.<br><br>Extensive data are becoming available on trends among financial institutions regarding climate risk management and the resulting benefits. |

Figure 8: Progression Matrix Milestones – Pillar 3: Financing Sustainability

| Preparation | | Implementation | | Maturing | |
|---|---|---|---|---|---|
| Commitment | Formulating | Developing | Advancing | Consolidating | Mainstreaming Behavioral Changes |
| The financial sector regulator or industry association has made a public commitment to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green or sustainability-focused projects and sectors.<br><br>Initial awareness raising and knowledge sharing is being organized by the regulator or industry association. | A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green, social, or sustainability-focused projects and sectors.<br><br>Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector. | A national framework is in place that includes regulations or guidance for the financial sector to promote financial flows to green, social, or sustainability-focused projects and sectors.<br><br>A taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry.<br><br>Activities include awareness raising and capacity building for financial institutions on the new expectations for Financing Sustainability. | Implementation tools and initiatives are in place, such as guidance,guidelines, taxonomies, reporting templates, training, online tools, and supervisory instructions to help the financial sector promote financial flows to green, social, or sustainability-focused projects and sectors.<br><br>Financial institutions report on their approach to Financing Sustainability in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association. | A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to promote financial flows to green, social, or sustainability-focused projects and sectors.<br><br>The national frameworks cover all three cross-cutting areas of Financing Sustainability:<br>1. strategic alignment,<br>2. regulatory and industry association actions, and<br>3. expectations of FI actions.<br><br>Consistent and comparable data are becoming available on trends in the practices of financial institutions in Financing Sustainability and the resulting benefits. | The national frameworks for Financing Sustainability are aligned with international good practice expectations and national sustainable development plans; and are consistent across different parts of the financial sector.<br><br>Local financial institutions demonstrate that they have embedded the requirements for Financing Sustainability in their operations, portfolio, products, and services and are reporting their performance publicly.<br><br>Extensive data are becoming available on trends among financial institutions regarding Financing Sustainability and the resulting benefits. |

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