South Africa

Country Progress Report

November 2021

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 in partnership with SBFN member institutions from South Africa. The Banking Association South Africa (BASA) provided data and participated in a virtual interview. Information was verified by the SBFN Secretariat and Rothko. The team is grateful for the review and guidance of the following member and observer institutions to finalize the report: BASA, National Treasury (NT) of South Africa, Prudential Authority (PA) within the South African Reserve Bank, and the Financial Sector Conduct Authority (FSCA). Particular thanks go to Pierre Venter and Yaseen Lockhat (BASA); Sarah McPhail and Vukile Davidson (NT); and Janet Terblanche (PA). The SBFN Measurement Working Group provided oversight for the 2021 Measurement Framework, which was agreed by members.

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

1. Overall country progress – South Africa

1.1 SBFN member institutions:

The Banking Association South Africa (BASA)	Member Since: 2016	**Working Groups:** Sustainable Finance Instruments Data and Disclosure
National Treasury of the Republic of South Africa	Observer Since: 2016 Member Since: 2021	**Working Group:** Sustainable Finance Instruments
South African Prudential Authority (PA), operating under the administration of the South African Reserve Bank (SARB)	Member Since: 2021	**Working Group:** Sustainable Finance Instruments

1.2 Other key institutions and national initiatives promoting sustainable finance

National Climate Risk Forum and Sustainable Finance Initiative
Financial Sector Conduct Authority (FSCA)
Johannesburg Stock Exchange (JSE)
Presidential Climate Change Coordinating Commission
Business Unity South Africa (BUSA) Just Transition Committee
CEO Champions Initiative

1.3 Overall progress

South Africa **remains in the "Advancing" sub-stage of the "Implementation" stage** of the Overall SBFN Progression Matrix. South Africa's sustainable finance framework has been evolving since 2011. ESG regulation for retirement funds was introduced in 2012 and voluntary banking principles have been implemented since 2015. Various implementation tools are in place, including guidelines, templates, and training. A national vision on sustainable finance was published by the National Treasury in 2020. Leading financial institutions publish Integrated Annual Reports in line with the King IV Code on Corporate Governance and international good practice. A formal, multi-stakeholder initiative is in place, chaired by the National Treasury and hosted by the banking association, to conduct stakeholder engagement and advance national regulations and guidance on various components of sustainable finance. The national framework extends beyond banking and addresses all three pillars of sustainable finance: ESG integration, climate risk management, and financing sustainability. Green, social, and sustainability-linked bonds are gaining momentum. Supervision and disclosure guidelines are in place for the retirement sector but not for the banking sector. Consistent data and disclosure on sustainable finance implementation is still lacking.

Figure 1: SBFN Progression Matrix - Overall Country Progress

1.4 Country sustainable finance journey

Figure 2: South Africa's sustainable finance journey

Policies, principles, regulations, and guidance.

Research and engagement (since last SBFN progress report)

Examples of market actions and impacts

2011

South African Government publishes Green Economy Accord

Institutional investors launch Code for Responsible Investing in South Africa

South African Government publishes updated Regulation 28 of the Pension Funds Act with new ESG requirements

2013

Batseta (Council of Retirement Funds for South Africa) publishes Responsible Investment and Ownership – A Guide for Pension Funds in South Africa

2015

The Banking Association South Africa (BASA) launches Principles for Managing Environmental and Social Risk

2016

BASA joins SBFN

National Treasury hosts first multi-stakeholder roundtable on sustainable finance and becomes SBFN Observer

4th edition of the King Report and Code on Corporate Governance (King IV) includes climate change and ESG considerations as well as integrated reporting requirements

2017

Johannesburg Stock Exchange (JSE) publishes Debt Listings Requirements for the JSE Green Segment

JSE requires any documents (circulars and annual reports) submitted to the JSE on or after 1 October 2017 to demonstrate application and disclosure of King IV

2018

National Treasury, GIZ, and Cambridge Institute for Sustainability Leadership (CISL) publish primer on "Embedding environmental scenario analysis into routine financial decision-making in South Africa"

City of Cape Town lists first green bond on the new JSE Green Segment

Growthpoint issues first corporate green bond on the JSE Green Segment

2019

Financial Sector Conduct Authority (FSCA) publishes Guidance Notice 1 of 2019: Sustainability of investments and assets in the context of a retirement fund's investment policy statement

Nedbank becomes first bank in South Africa to list a renewable energy bond on the JSE Green Segment

2020

National Treasury publishes Draft Technical Paper on Financing a Sustainable Economy

BASA establishes Climate Risk Forum, chaired by National Treasury, with working groups to implement recommendations of the NT Draft Technical Paper

South African Reserve Bank (SARB) surveys banks and insurance sector on alignment with the Task Force on Climate-related Disclosures (TCFD)

FSCA and IFC publish survey of Sustainable Finance Practices in South African Retirement Funds

Total green bond issuance to the value of $2.6 billion

2021

Netcare and Standard Bank list Africa's first self-labeled sustainability-linked bond on the JSE

TUHF and Standard Bank launch South Africa's first social bond listed on the JSE

National Treasury publishes Draft Green Finance Taxonomy for South Africa

National Treasury becomes a formal SBFN member and Co-chair for the SBFN Sustainable Finance Instruments Working Group

South Africa Prudential Authority (PA) joins SBFN

National Treasury publishes Technical Paper on Financing a Sustainable Economy

1.5 COVID response

In mid-2020, the South African government announced a 500 billion rand ($33.6 billion) stimulus package, thereby accelerating deficit spending from 6.8 percent to over 10 percent of GDP for the 2020 financial year. In late July, it was announced that South Africa would be taking out a 70 billion rand ($4.7 billion) IMF loan, increasing the country's total debt to GDP ratio to 83 percent. In March 2020, the South African Reserve Bank governor announced a reduction of the country's repo rate by 100 basis points, or 1 percentage point, to 5.25 percent, which was later further reduced to 3.5 percent. All banks offered a payment holiday at the onset of COVID-19. The period varied from bank to bank. Big banks were able to do so for 90 days. For smaller banks, this ranged from 30 to 90 days.

1.6 Ambitions for the next phase

South Africa's Climate Risk Forum, chaired by National Treasury, is spearheading work on enabling frameworks for sustainable finance. Topics include taxonomy development, sustainable finance instruments, disclosure, climate risk benchmarking, and sector capacity building. IFC, World Bank, UK PACT, GIZ, and other international partners are already supporting these efforts and will continue to deepen some of the work undertaken to date. The Sustainable Finance Working Group recently completed a mapping of sustainable finance instruments and the development of a handbook to support a wide range of financial sector practitioners on this new topic. Plans are in place to develop granular, sector-level training on a variety of themes, including the new sustainable finance handbook, and pilot the use of climate change scenarios, with an initial focus on drought and floods and the insurance sector. This will be expanded to other sectors over time.

1.7 SBFN and IFC role

Since 2011, IFC has supported South Africa's financial sector through technical support and capacity building on sustainable finance; including initiatives for the retirement sector, banking, private equity, and regulators. Support has been provided through IFC's Environmental and Social Risk Management (ESRM) Program for Financial Institutions, in partnership with the Swiss State Secretariat for Economic Affairs (SECO); and the Green Bond Market Development Program, in partnership with SECO and the Swedish International Development Cooperation Agency (Sida). BASA, National Treasury, the JSE, and the FSCA have shared their experiences with SBFN members and benefited from the collective SBFN knowledge base.

> SBFN serves a very important purpose. It provides us with a network and reports to measure ourselves against other developing countries in terms of our sustainable finance journey. It helps us identify gaps and shortcomings, and places pressure on us as a country to close those gaps and shortcomings. It is also very pleasing to see what other countries are doing.

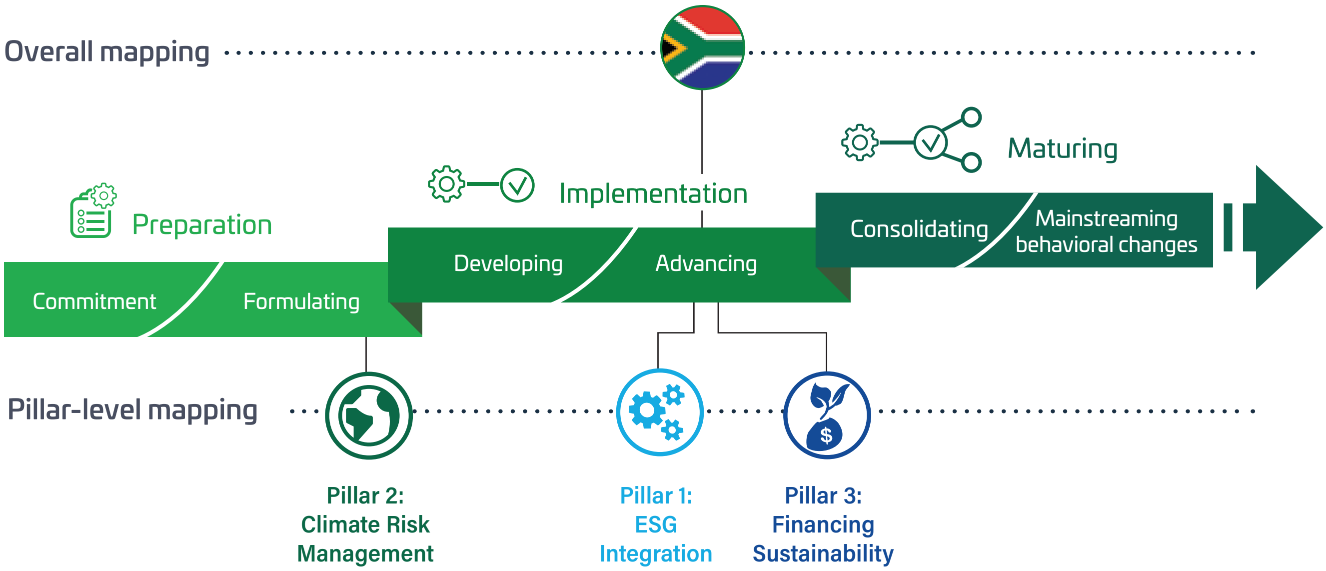
Pierre Venter
General Manager

The Banking Association South Africa (BASA)

THE BANKING ASSOCIATION SOUTH AFRICA

2. Progress by three pillars

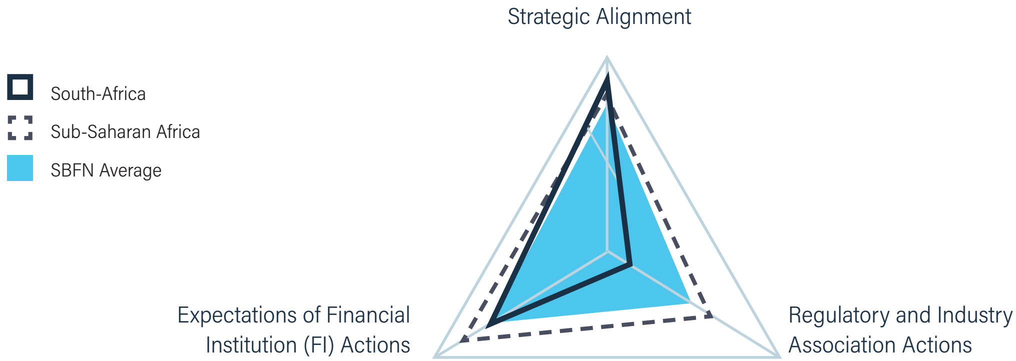
Figure 3: Mapping of overall country progress and individual pillar progress



Pillar 1: ESG Integration

Pillar Progress: Advancing

South Africa 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 financial institutions. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and FIs are beginning to report on their ESG implementation with consistent reporting instructions or templates.



Sub-pillar 1: Strategic Alignment

- South Africa's national frameworks for the banking sector and non-banking sector set out expectations for integrating the consideration of ESG risks and performance. These include the updated Regulation 28 of the Pension Funds Act, voluntary banking Principles for Managing Environmental and Social Risk (BASA, 2015), Technical Paper on "Financing a Sustainable Economy" (National Treasury, 2021), and the Code for Responsible Investing in South Africa (CRISA).

- South Africa's approach to ESG integration in the financial sector is aligned with international good practices and standards, such as the SDGs, UN Global Compact, UNEP FI, TCFD, ICMA, OECD, IFC Performance Standards and Corporate Governance Development Framework, Equator Principles, Principles for Responsible Banking, Principles for Responsible Investment, and Principles for Sustainable Insurance. The ESG requirements are also aligned with the country's national development goals and objectives.
- South Africa's National Treasury convened the first multi-stakeholder roundtable on sustainable finance in June 2016 and established a working group on financial sector regulatory agencies and industry associations in January 2017 to develop a framework document on sustainable finance. In May 2020, drawing on the working group's inputs, National Treasury released a draft Technical Paper on Financing a Sustainable Economy, which it published formally in October 2021. The Paper defines sustainable finance for the South African context and articulates a shared vision for its implementation.

Sub-pillar 2: Regulatory and Banking Association Actions

- South Africa's sustainable finance framework is supported through awareness-raising and capacity-building events.
- In May 2020, National Treasury and BASA established a Climate Risk Forum to oversee the implementation of recommendations in Treasury's Technical Paper on Financing a Sustainable Economy. Several working groups have been created to support implementation of the Technical Paper, including the Taxonomy Working Group, Financial Instruments Working Group, Disclosure Working Group, Climate Benchmarking Working Group, and Capacity Working Group.
- Key recommendations include co-developing technical guidance, standards, and norms for all financial institutions, including coverage of E&S risk management, the use of science-based methodologies/target setting, and disclosures as per the TCFD.

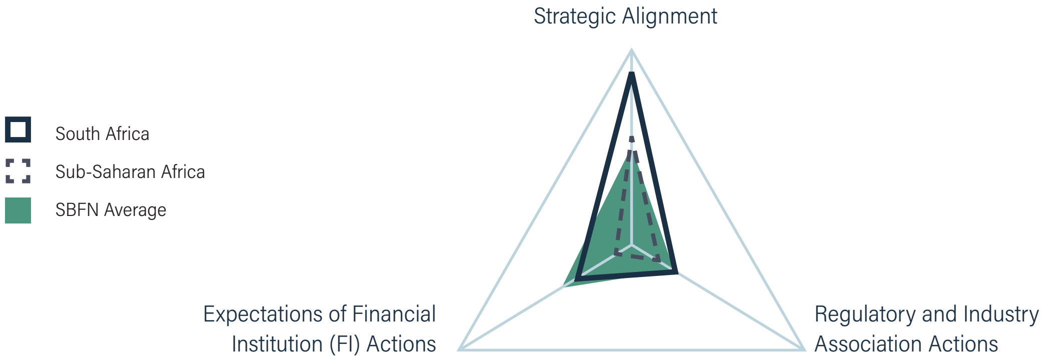
Sub-pillar 3: Expectations for FI Actions

- The BASA Principles for Managing Environmental and Social Risk and the King IV Code on Corporate Governance require banks to develop policies and procedures to manage ESG risks and performance, and to publicly report ESG performance.
- Updated Regulation 28 of the Pension Funds Act (2011) requires retirement funds to integrate ESG considerations into investment decisions and mandates; and the FSCA Guidance Notice 1 of 2019 provides direction to funds on how to report to the regulator on "Sustainability of investments and assets in the context of a retirement fund's investment policy statement".

Pillar 2: Climate Risk Management

Pillar Progress: Formulating

South Africa is in the **"Formulating" sub-stage of the "Preparation" stage** of the Climate Risk Management Pillar. South Africa's corporate governance code mentions climate risk as an emerging risk for governing bodies to address. The National Treasury has issued a technical paper that calls for the development of approaches for financial institutions to manage the physical and transition risks of climate change and related financial impacts in line with international practices. There are ongoing activities on climate risk by regulators and industry associations, including research, capacity building, multi-stakeholder engagement, and awareness raising for the financial sector regarding new expectations for climate risk management.



Sub-pillar 1: Strategic Alignment

- Addressing climate change risk is a national priority as indicated in South Africa's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies, including South Africa's National Climate Change Adaptation Strategy (NCCAS). In the financial sector, South Africa's National Treasury, the Reserve Bank of South Africa and Prudential Authority (PA), Financial Sector Conduct Authority (FSCA), and the Banking Association South Africa (BASA) have undertaken research and industry engagement on climate risk. South Africa's corporate governance code includes climate risk as a key risk to be managed by all governing bodies, including institutional investors.

Sub-pillar 2: Regulatory and Banking Association Actions

- The BASA voluntary banking Principles for Managing E&S Risk (2015) include climate change as an environmental issue that FIs can help address in collaboration with government and other stakeholders. For those BASA members that are signatories to the Equator Principles, the BASA Principles mention the additional commitment to undertake environmental and social impact assessments.
- The King IV Code on Corporate Governance (2016) mentions climate change as a new risk that should be addressed by governing bodies of organizations. The Johannesburg Stock Exchange (JSE) chairs the UNSSE's Climate Disclosure Advisory Group.
- As part of South Africa's ongoing Sustainable Finance Initiative, in 2021 the National Treasury published the Technical Report on Financing a Sustainable Economy, which discusses climate risk to the financial sector and proposes actions for the development of climate risk management approaches across banking, capital markets, private equity, insurance and pension sectors and regulators, among others.[1] The Technical Paper notes the need to develop or adopt additional methodologies — beyond those typically covered by current environmental impact assessment regulations and practices, and

1 The report was developed with the assistance of IFC and involving a working group including the South African Reserve Bank, Financial Sector Conduct Authority (FSCA), Prudential Authority (PA), Department of Forestry, Fisheries, and the Environment, The South African Insurance Association (SAIA), The Banking Association South Africa (BASA), The Association for Savings and Investment South Africa (ASISA), The Johannesburg Stock Exchange (JSE), BATSETA – Council for Retirement Funds.

the National Environmental Management Act, to include specifically the identification, management and disclosure of climate-related risks.

- The Technical Paper emphasizes the need for a Just Transition as part of the move to a low-carbon economy. BASA is a member of Business Unity South Africa's (BUSA) Just Transition Task Group, which is researching the costs and impacts of the transition and in 2021 released "Just Transition and Climate Pathways Study — Decarbonising South Africa's Power System".
- Since June 2020, the National Treasury has chaired a regulator-industry Climate Risk Forum Steering Committee hosted by BASA as Secretariat. It includes working groups on elements of climate risk management, including scenario benchmark analysis for stress testing, and governance, risk management, and disclosure practices in line with TFCD. The working groups involve a broad cross section of the financial sector.
- SARB is a member of the Network for Greening the Financial System [NGFS]. In 2020, the Prudential Authority within the SARB undertook a survey of awareness, understanding, and levels of uptake and implementation of the TCFD among insurers and banks.
- As part of future progress by South Africa, recommended areas of focus for regulatory and industry association actions include research, capacity building, technical guidance (for example, climate scenario analysis and stress testing), and development of regulatory and supervisory expectations for FIs for managing physical and transition risks of climate change and related financial impacts.

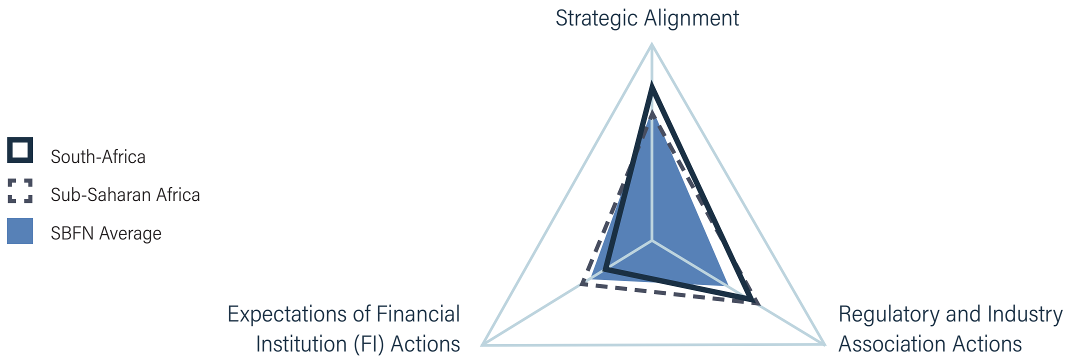
Sub-pillar 3: Expectations for FI Actions

- Application of South Africa's corporate governance code and BASA's Principles for Managing E&S Risk serve to build familiarity and capacity among South African financial institutions to improve climate risk management practices. Based on the working groups in the Climate Risk Forum, the National Treasury will develop a set of actions to incorporate climate risk management elements into financial sector ESG risk management.
- Additional capacity building efforts include the 30 by 30 Zero initiative, in which the IFC and World Bank are collaborating with South African financial authorities and the financial sector to scale climate finance, and build the capacity of FIs to identify, manage, and reduce the climate and carbon-related risks in their portfolios.

Pillar 3: Financing Sustainability

Pillar Progress: Advancing

South Africa is mapped under the **"Advancing" sub-stage of the "Implementation" stage** for the Financing Sustainability pillar. A national framework is in place through the JSE to enable the issuance of green, social, and sustainability-linked instruments. A multi-stakeholder working group under the Climate Risk Forum has developed a Sustainable Finance Instruments Handbook. Capacity building and implementation tools are in place to support financial flows into green, social, climate, and sustainability-linked projects. In 2020, retirement funds representing 74 percent of assets under management reported to the FSCA on their allocations to green finance categories. National Treasury published a draft Green Finance Taxonomy in June 2021 for public consultation.



Sub-pillar 1: Strategic Alignment

- South Africa's national framework for financing sustainability covers the banking sector, retirement sector, and capital markets.
- National Treasury's Technical Paper on Financing a Sustainable Economy (2021) includes recommended actions to promote financing of sustainability in line with national social and environmental priorities.
- The various recommendations, guidance, and listing instructions for promoting financial flows into green, climate, social, and sustainability-linked projects and sectors is aligned with international goals and good practices, such as the SDGs; EU Sustainable Finance Taxonomy; ICMA Green, Social, and Sustainability Bond Standards and Transition Finance Handbook; and CBI Climate Bond Standards.
- In 2019, BASA formally endorsed the United Nations Environment Programme Finance Initiative (UNEPFI) Principles for Responsible Banking and embarked on a Positive Impact Finance project with its members to further define how banks can contribute towards the achievement of the SDGs and the National Development Plan (NDP). The project will, over time, seek to establish a dashboard that illustrates priority areas for banks, indicating where lending is having a positive impact on society.

Sub-pillar 2: Regulatory and Banking Association Actions

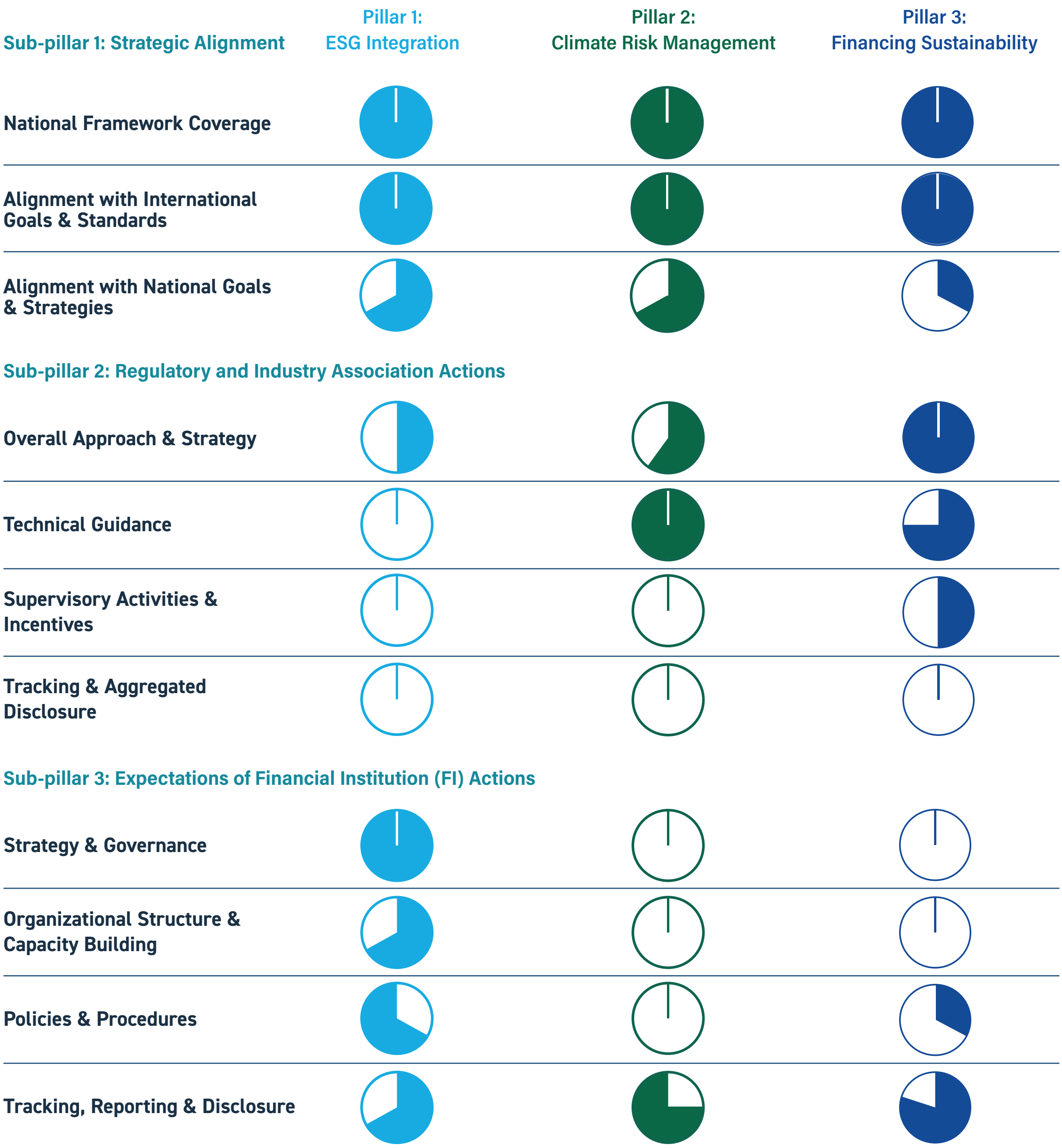
- National Treasury's Technical Paper on Financing a Sustainable Economy (2021) clarifies the roles and recommended actions for key financial sector regulators and market players.
- The South Africa Green Economy Accord (2011) contains a list of definitions and samples of green assets. In June 2021, the South Africa Taxonomy Working Group, chaired by National Treasury, published a draft National Green Finance Taxonomy for public consultation.
- The JSE has expanded its Green Segment to include social and sustainability-linked issuances. Work is underway to include instructions on Transition Finance.
- The JSE monitors information reported by FIs related to green/social/sustainability debts and bonds to prevent greenwashing and social washing.

Sub-pillar 3: Expectations for FI Actions

- The JSE Sustainability Segment requires independent review of issuers' green and sustainability bond frameworks.
- Issuers are also asked to publish annual updates on the performance and impacts of sustainability instruments in order to be listed in the JSE's Sustainability Segment, including a statement on the use of proceeds and how the issuer will report impact from eligible sustainable, green, or social projects pursuant to the sustainability standards.

3. Progress by three sub-pillars and 11 indicators

Figure 4: Overview of South Africa'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

- Technical Paper on Financing a Sustainable Economy (South Africa National Treasury, 2021)
- Draft Green Finance Taxonomy for South Africa (National Treasury, 2021)
- Sustainable Finance Practices in South African Retirement Funds (Financial Sector Conduct Authority and IFC, 2020)
- Sustainability Segment (Johannesburg Stock Exchange, 2020)
- Working Paper – WP/20/04: Climate change and its implications for central banks in emerging and developing economies (Prudential Authority, 2020)
- Guidance Notice: Sustainability of investments and assets in the context of a retirement fund's investment policy statement (Financial Sector Conduct Authority, 2019)
- Primer on "Embedding environmental scenario analysis into routine financial decision-making in South Africa" (National Treasury, GIZ, and Cambridge Institute for Sustainability Leadership (CISL), 2018)
- Debt Listings Requirements for the Green Segment (Johannesburg Stock Exchange, 2017)
- King IV Code on Corporate Governance (Institute of Directors in Southern Africa, 2016)
- Principles for Managing Environmental and Social Risks (The Banking Association South Africa, 2015)
- Responsible Investment and Ownership – A Guide for Pension Funds in South Africa (Batseta – Council of Retirement Funds for South Africa, 2013)
- Code for Responsible Investing in South Africa (Committee on Responsible Investing by Institutional Investors in South Africa, 2011)
- Updated Regulation 28 of the Pension Funds Act (South African Government, 2011)
- Green Economy Accord (Government of South Africa, 2011)

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

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.

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.

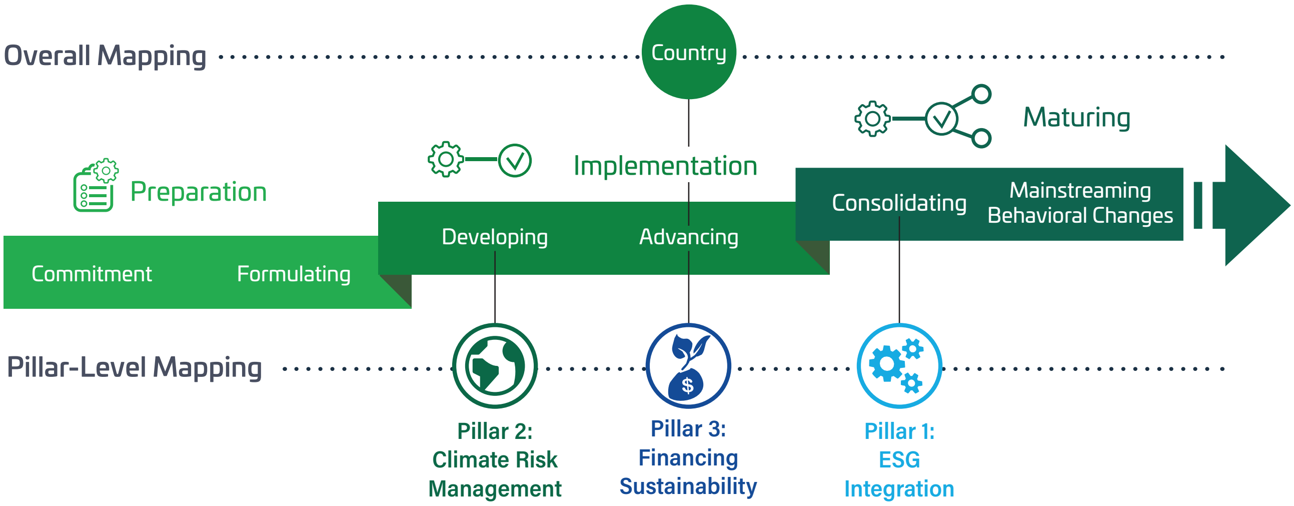
Financing Sustainability refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance,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

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

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

Pillar 1: ESG Integration

Sub-pillar	Indicator	No.	Underlying datapoint
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?

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

Commitment

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.

Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.

Formulating

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.

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

Implementation

Developing

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.

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

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.

Advancing

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.

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.

Maturing

Consolidating

A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to manage climate risk.

The national frameworks cover all three cross-cutting areas of Climate Risk Management:

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 Climate Risk Management and the resulting benefits.

Mainstreaming Behavioral Changes

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.

Local financial institutions demonstrate that they have embedded the requirements for climate risk management and are reporting on their efforts.

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

Commitment

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.

Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.

Formulating

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.

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

Implementation

Developing

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.

A 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 Financing Sustainability.

Advancing

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.

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.

Maturing

Consolidating

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.

The national frameworks cover all three cross-cutting areas of Financing Sustainability:

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

Consistent and comparable data are becoming available on trends in the practices of financial institutions in Financing Sustainability and the resulting benefits.

Mainstreaming Behavioral Changes

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.

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.

Extensive data are becoming available on trends among financial institutions regarding Financing Sustainability and the resulting benefits.

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