

A Sustainable Banking Network (SBN)
Flagship Report
Addendum to SBN Global Progress Report

October 2019

Country Progress Report

Ecuador



Sustainable
Banking
Network



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1. Country progress summary – Ecuador



SBN Member: [Association of Private Ecuadorian Banks \(Asobanca\)](#) (member since 2016)

SBN Working Group: Green Bond Working Group

Key policy documents:

- ❑ Ecuador Sustainable Banking Protocol (Asobanca, 2016)

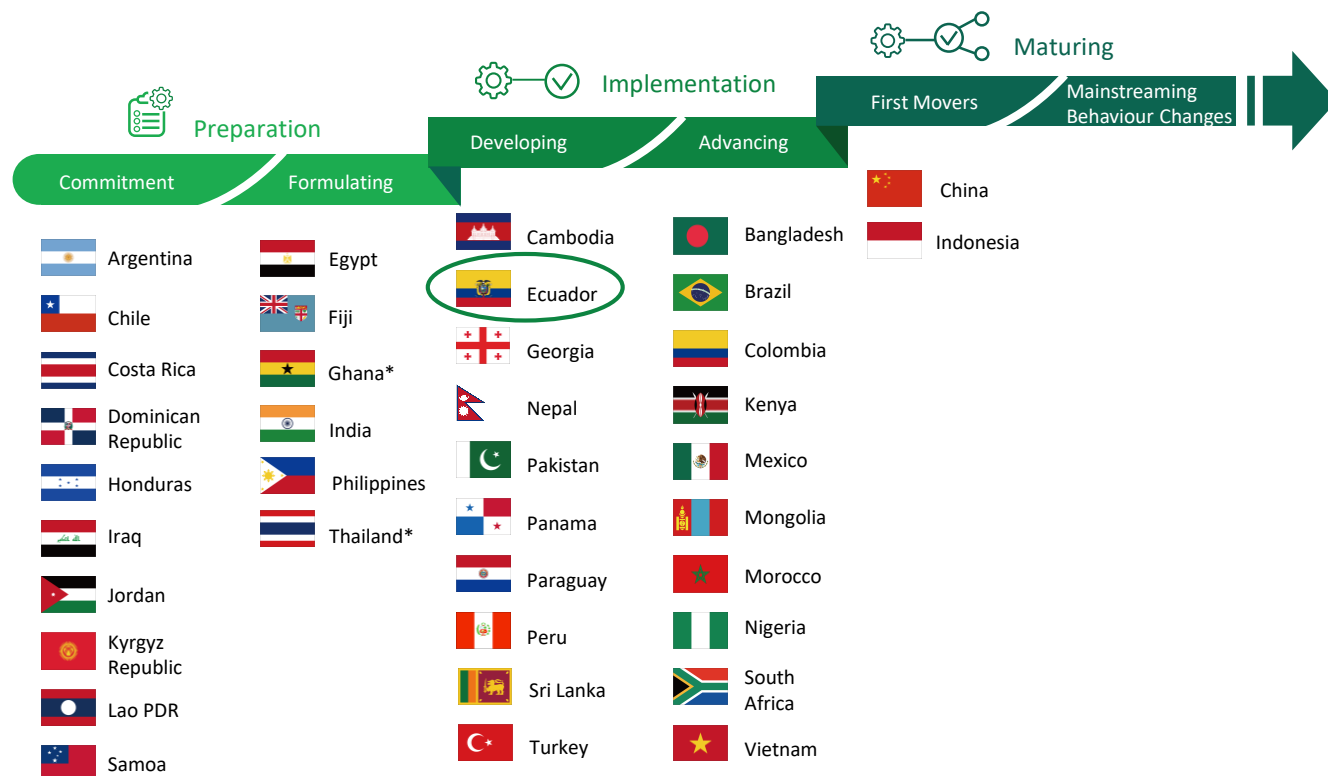
Key milestones since 2018 SBN Report:

- ❑ Ecuador's first NDC was submitted in 2019. Protecting the social improvements achieved during the oil boom period is also a national priority.
- ❑ As of 2019, Asobanca's focus has been to work with the Federation of Latin American Banks (Felaban) to address important topics such as E&S risks (including climate risks), climate financing, and its monitoring and impact.
- ❑ Ecuador has progressed from "Formulating" under the "Preparation" stage to "Developing" under the "Implementation" stage, as indicated in the "Progression Matrix" below.

SBN and IFC role: IFC, in partnership with Canada, has provided capacity building to support Asobanca develop and implement the Protocol. Through SBN, Asobanca has shared its experience with other SBN members and benefited from the collective SBN knowledge base.

Figure 1: SBN Progression Matrix with Assessment Results¹

Assessment based on progress up to and as of June 2019²

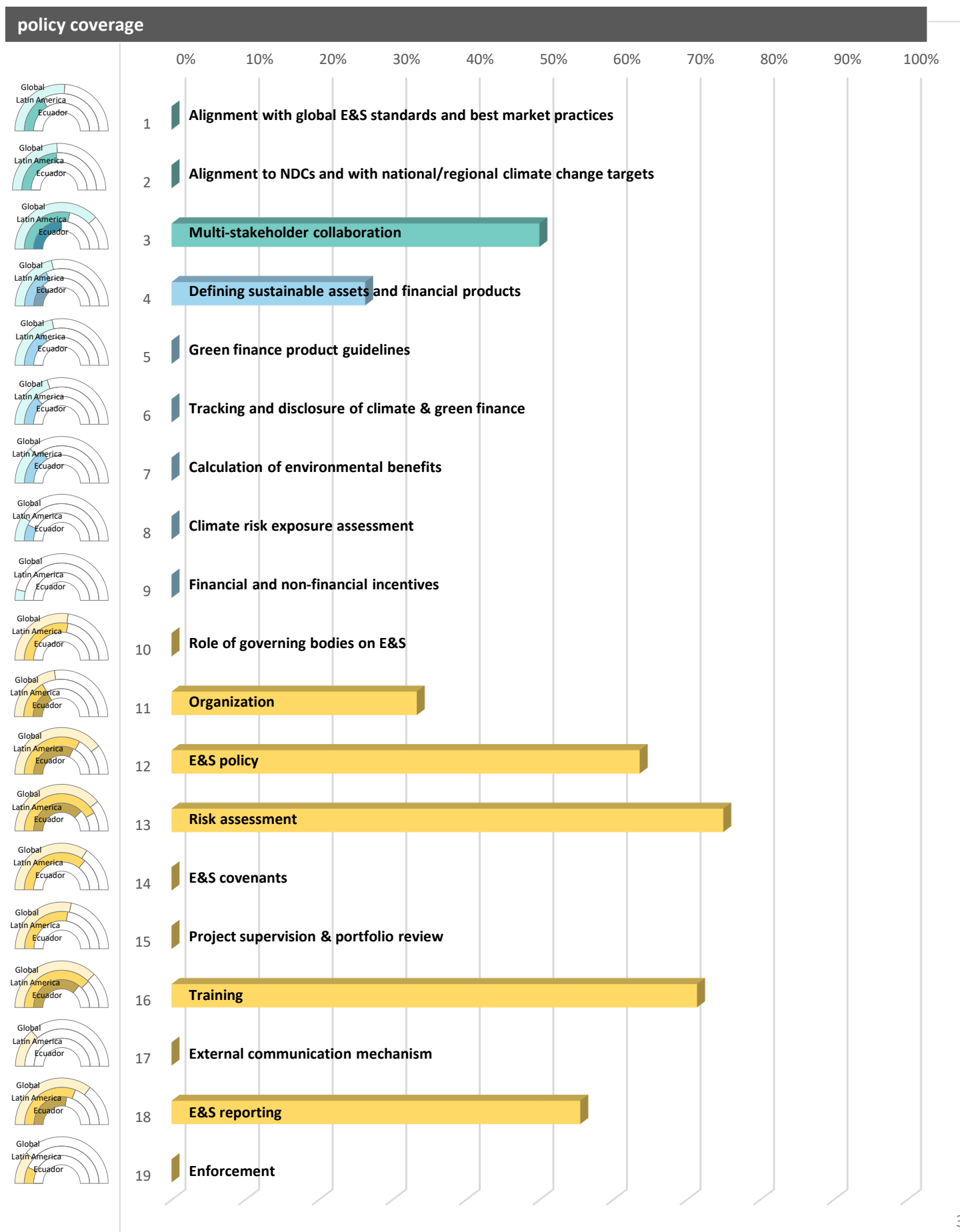


Note:

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

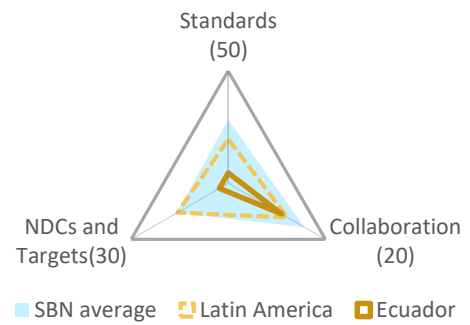
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

2. Overview of policy coverage by indicators



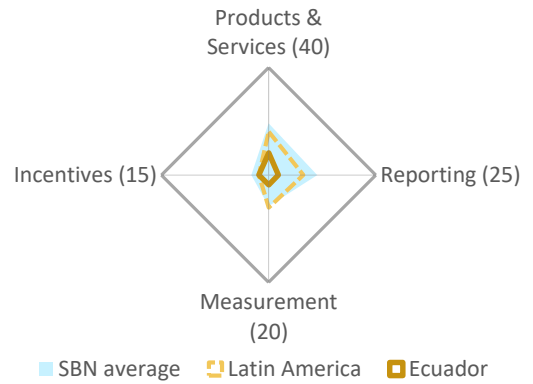
3. Policy coverage developed

Pillar I: Strategic Alignment



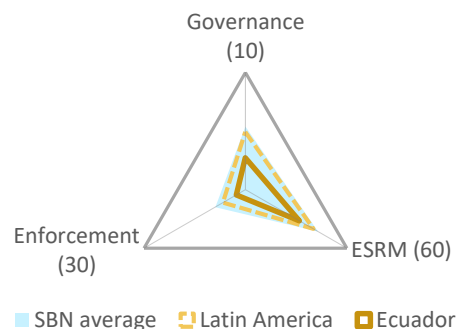
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	Although the Protocol does not explicitly refer to any international standards it encourages FIs to take international best standards into account.	Ecuador Sustainable Banking Protocol (Asobanca, 2016) – Page 3 – Estrategia 3
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	-	-
Multi-stakeholder collaboration		
Indicator 3	Asobanca's Protocol requires banks to develop strategies relating to green finance, their own environmental footprint, and E&S risk management. The Protocol involves cross-agency collaboration between financial supervisors/regulators, industry associations, and FIs.	Ecuador Sustainable Banking Protocol (Asobanca, 2016)

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	<p><u>Defining sustainable assets and financial products</u></p> <p>The protocol provides definitions and examples of green assets.</p> <p>It encourages FIs to develop green finance activity, and identifies priority sectors, including energy, construction, tourism, and biotech. FIs are also asked to encourage clients to invest in green assets, making use of local, national and international incentives.</p>	Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 2 – Estrategia 1 – b) & c)
Climate and green investment reporting		
Indicator 6	The Protocol requires FIs to report on the implementation of Green finance strategies.	Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 3 – Tercero
Measurement		
Indicator 7, 8	-	-
Incentives		
Indicator 9	-	-

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10, 11	<p><u>Organization</u></p> <p>The framework defines role and responsibilities of dedicated E&S departments and officers, and a coordination mechanism within banks.</p>	Ecuador Sustainable Banking Protocol (Asobanca, 2016) – Page 2 – Estrategia 3
E&S risk management		
Indicator 12 - 18	<p><u>E&S policy</u></p> <p>E&S risk management is the third strategy the Protocol requires FIs to develop. FIs are asked to define policies and procedures for analyzing and categorizing investments according to E&S criteria, in line with international best practice. FIs are encouraged to go beyond E&S requirements from local laws and regulations.</p> <p><u>Risk assessment</u></p> <p>The framework requires FIs to carry out appropriate E&S due diligence at transaction level and at client level. It also encourages FIs to categorize projects and clients according to their level of E&S risk.</p> <p>FIs must also categorize investments according to E&S risks, and establish measures of prevention, mitigation, correction, and/or compensation.</p> <p><u>Training</u></p> <p>The framework asks FI to develop and maintain E&S capacity through regular training.</p> <p><u>E&S reporting</u></p> <p>The Protocol requires FIs to report to Asobanca on their E&S risk management implementation, and to publicly disclose information on their E&S risk management performance.</p> <p>FIs also need to develop mechanisms for consultation and dialogue with external stakeholders.</p>	<p>Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 2 – Estrategia 3 a), b) & Estrategia 3</p> <p>Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 2 – Estrategia 3 a) & b)</p> <p>Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 2 – Estrategia 3 a) & b)</p> <p>Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 3 - Tercero - Divulgacion - a)</p> <p>Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 3 – Tercero - Divulgacion</p> <p>Ecuador Sustainable Banking Protocol (Asobanca, 2016) - Page 3 – Tercero</p>
Enforcement		
Indicator 19	-	-

4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar I: Strategic Alignment	Alignment with global E&S standards and best market practices	100%	<ul style="list-style-type: none"> ➤ Reference to international E&S targets ➤ Reference to established international ESRM standards ➤ Reference to established international green finance reporting standards ➤ Reference to international climate finance reporting standards ➤ Requirement to make E&S policies, practices and results externally verified
	Alignment to NDCs and with national/regional climate change targets	100%	<ul style="list-style-type: none"> ➤ Aligned with national NDCs or other national and regional policies on climate ➤ Defined main climate risks for local financial sector
	Multi-stakeholder collaboration	50%	<ul style="list-style-type: none"> ➤ Collaboration with other public agencies ➤ Collaboration with representatives of civil society
Pillar II: Climate and Green Finance	Products & services	88%	<ul style="list-style-type: none"> ➤ A comprehensive taxonomy for green assets ➤ Definitions/examples for social/sustainable assets ➤ Guidelines for green financial assets (excluding green bond) ➤ Guidelines for issuance of green bonds ➤ Reference to existing standards ➤ Recommend external party verification
	Climate & green investment reporting	100.0%	<ul style="list-style-type: none"> ➤ Requirement for FIs to report on climate/green finance flows ➤ Requirement for FIs to report on climate risk exposure at portfolio level ➤ Encouragement for FIs to report publicly on their green finance activities
	Measurement	100.0%	<ul style="list-style-type: none"> ➤ Requirement for FIs to calculate the environment benefits of their investments ➤ Taxonomy of potential environmental impacts ➤ Methodologies, tools, and/or templates to measure and report environmental impacts ➤ Requirement to monitor climate risk exposure at portfolio level ➤ Reference to specific climate exposure methodologies ➤ Encouragement of mitigation steps
	Incentives	100.0%	<ul style="list-style-type: none"> ➤ Incentives for green financial products/services ➤ Financial incentives on green products/services
Pillar III: ESG Integration	Governance of E&S	80%	<ul style="list-style-type: none"> ➤ Requirement of one of FIs' governing bodies to approve an E&S strategy ➤ Requirement of FIs' management to report on the E&S strategy implementation to the governing bodies ➤ Requirement of FI operational bodies to report to the governing bodies on implementation of the E&S strategy ➤ Highlight the roles of front officers and second lines of defense ➤ Requirement for FIs to define competencies for each role

4. Policy coverage to be developed (cont.)

Pillar	Sub Pillar	Gaps	Areas for improvement
Pillar III: ESG Integration (cont.)	E&S risk management	52%	<ul style="list-style-type: none"> ➤ Requirement for FIs to set E&S or ESG objectives and targets ➤ Requirement for FIs to publicly disclose their E&S policy and its governance ➤ Encourage site visits for high-risk transaction ➤ Invitation to engage with clients to implement mitigation measures in case of negative impacts ➤ Requirement for FIs to incorporate E&S covenants and investment conditions into legal agreements with clients ➤ Requirement for FIs to develop processes to manage E&S risks during supervision ➤ Encourage a periodic review of E&S risks at aggregate portfolio level ➤ Highlight the training of (i) front officers, (ii) second lines of defense, and (iii) E&S experts ➤ Requirement of FIs to establish and maintain any inquiry/complaints/grievance mechanism in relation to E&S or ESG practices ➤ Requirement of E&S or ESG reporting and disclosure to be more consistent across financial institutions through introducing principles, guidelines, or templates
	Enforcement	100%	<ul style="list-style-type: none"> ➤ Implementation of the framework regularly verified or information regularly collected from FIs ➤ Financial and non-financial incentives for establishing ESRM systems ➤ Sanctions/penalties/warnings in case of noncompliance with the framework

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