

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

October 2019

Country Progress Report

Pakistan



Sustainable
Banking
Network



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1. Country progress summary – Pakistan



SBN Member: [State Bank of Pakistan \(SBP\)](#) (member since 2015)

SBN Working Group: Measurement Working Group, IDA Task Force

Key policy documents:

- ☐ Corporate social responsibility voluntary guidelines (Securities and Exchange Commission, 2013)
- ☐ Green Banking Guidelines (SBP, 2017)

Key milestones since 2018 SBN Report:

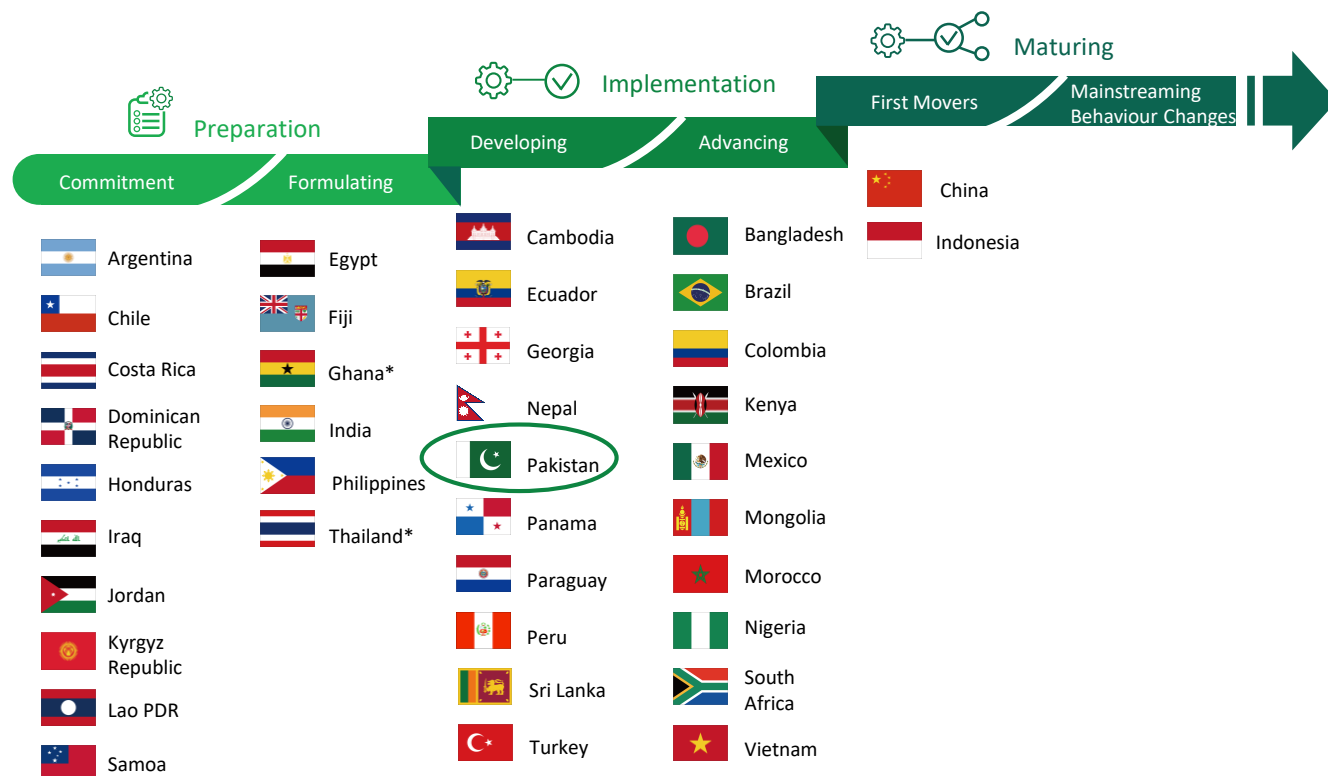
- ☐ Pakistan has started its sustainable finance policy implementation, and thus progressed from “Formulating” under the “Preparation” stage to “Developing” under the “Implementation” stage, as indicated in the “Progression Matrix”.

Ambitions for next phase: Further additions are expected to complement the current Guidelines, adding different components before it becomes regulation.

SBN and IFC role: IFC has provided advice to SBP in relation to policy development and capacity building. Through SBN, SBP has shared its experiences 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

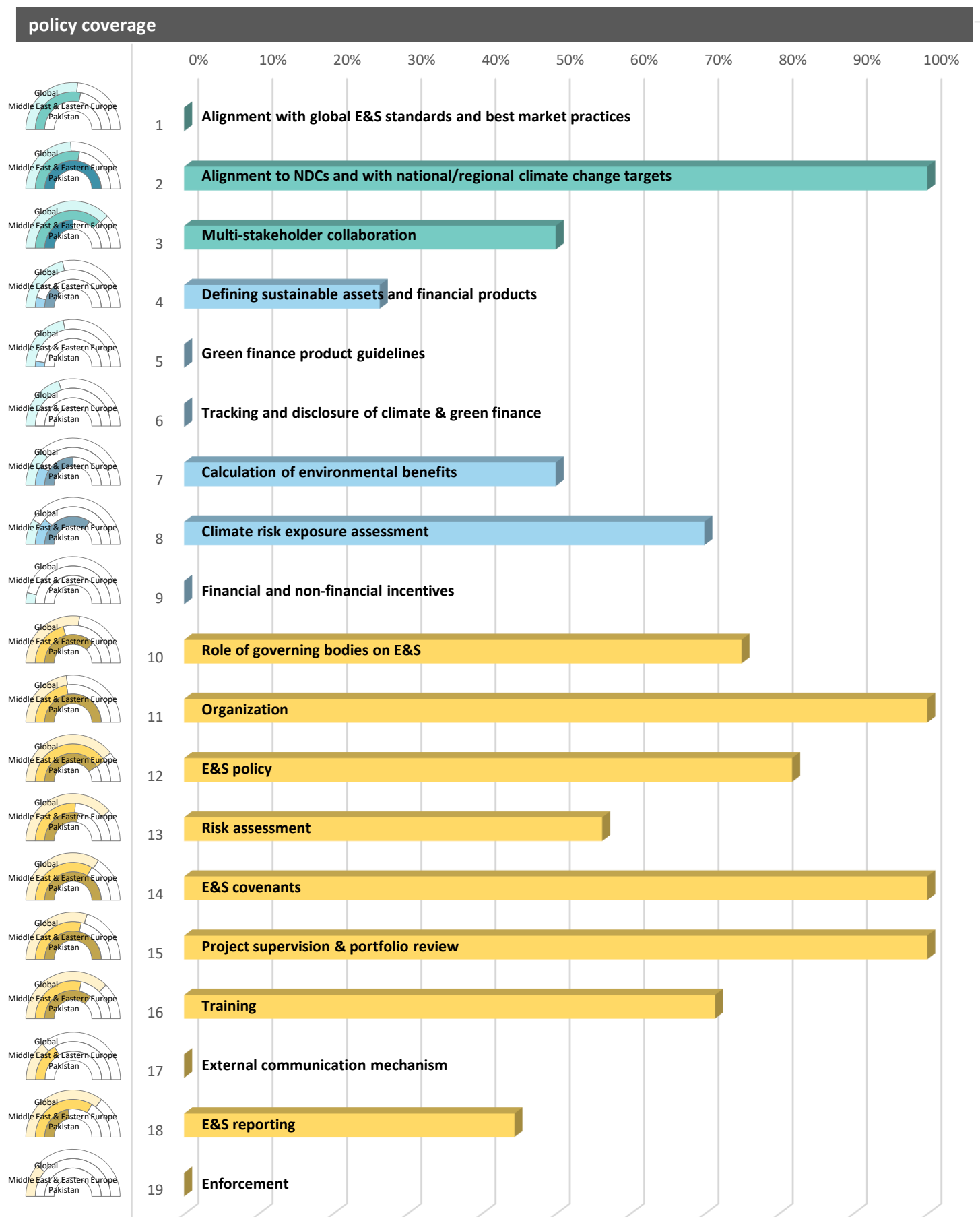


Note:

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

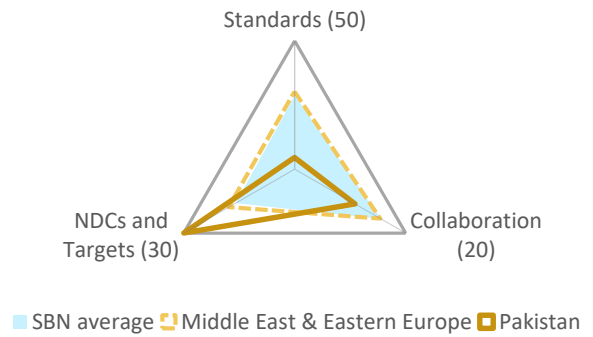
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

2. Overview of policy coverage by indicators



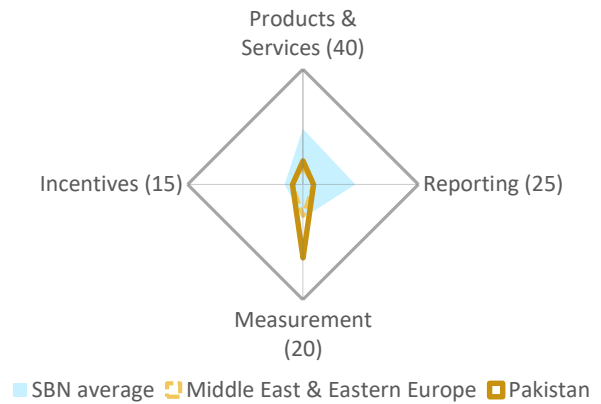
3. Policy coverage developed

Pillar I: Strategic Alignment



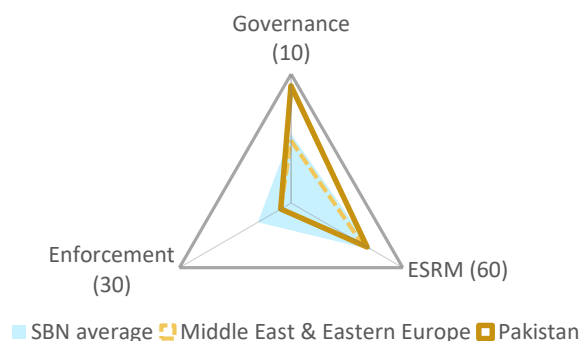
Indicator	Policy requirement	Reference
Alignment with global E&S standards and best market practices		
Indicator 1	The Green Banking Guidelines identify and precisely define environmental risks.	-
Alignment to NDCs and with national/regional climate change targets		
Indicator 2	-	-
Multi-stakeholder collaboration		
Indicator 3	-	-

Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
Products and services		
Indicator 4, 5	The current framework provides little specific guidance on green finance, but suggests that banks could <ul style="list-style-type: none"> i) define their appetite for funding businesses with positive environmental attributes, and ii) set up a team to identify and evaluate possible green investments 	-
Climate and green investment reporting		
Indicator 6	-	-
Measurement		
Indicator 7, 8	The Green Banking Guidelines encourage FIs to integrate an evaluation of environmental costs into their credit appraisals, highlighting the benefits of green alternatives and improving awareness of green finance.	Green Banking Guidelines (SBP, 2017) - 4.1 3 p15
Incentives		
Indicator 9	-	-

Pillar III: ESG Integration



Indicator	Policy requirement	Reference
Governance of E&S		
Indicator 10, 11	<p>The Guidelines require FI boards to approve E&S strategies and supervise their implementation.</p> <p>The Guidelines provide clear definitions of the key roles, responsibilities, and competencies that banks need in order to establish effective E&S risk management.</p> <p>They also suggest that FI boards should be supplied with all the information they need to anticipate any future requirements for regulatory reporting.</p>	<p>Green Banking Guidelines (SBP, 2017) - 2.1 § i p4 Green Banking Guidelines (SBP, 2017) - 2.2 §ii p4</p> <p>Green Banking Guidelines (SBP, 2017) - 2 p 4 and 5 Green Banking Guidelines (SBP, 2017) - 2.2 §vi p5 Green Banking Guidelines (SBP, 2017) - 2.3 §i p5</p>
E&S risk management		
Indicator 12 - 18	<p>The Guidelines encourage banks to integrate monitoring and mitigation of environmental risks into their processes, and to apply this throughout the life of individual projects and transactions.</p> <p>They also encourage banks to include environmental risk covenants into legal agreements with borrowers and to list within the environmental Improvement Plan (EIP) specific examples of actions and measures that borrowers should take in order to obtain financing.</p> <p>The Guidelines suggest standardized tools for banks to use, both to help clients monitor and manage their environmental risks, and to improve the consistency of E&S disclosure between FIs. These tools include an <i>Escalation Matrix</i> to integrate environmental risks into credit decisions, and a due diligence checklist.</p>	<p>Green Banking Guidelines (SBP, 2017) - 3.3.2.1 §1&2 p9 Green Banking Guidelines (SBP, 2017) - 3.3.2.2 §1 p10</p> <p>Green Banking Guidelines (SBP, 2017) - 3.3.2.3 c) p12 Green Banking Guidelines (SBP, 2017) - 3.3.2.3 b) p12 Green Banking Guidelines (SBP, 2017) - 3.3.2.2 §1 p10</p> <p>Green Banking Guidelines (SBP, 2017) - 3.3.2.1 §2 p9 Green Banking Guidelines (SBP, 2017) - 3.3.2.2 §1 p11</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 target ➤ 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	0%	-
	Multi-stakeholder collaboration	50%	<ul style="list-style-type: none"> ➤ Collaboration with other public agencies ➤ Representation of civil society
Pillar II: Climate and Green Finance	Products & services	88%	<ul style="list-style-type: none"> ➤ Comprehensive taxonomy for green assets ➤ Definition/examples for social/sustainable assets ➤ Definition/examples for sustainable financial non-debt products ➤ Guidelines for green financial assets (excluding green bond) ➤ Guidelines for issuance of green bonds ➤ Reference to existing standards ➤ Recommendation of external party verification
	Climate & green investment reporting	100%	<ul style="list-style-type: none"> ➤ Requirement of report on climate/green finance flows ➤ Requirement of report on portfolio climate risk exposure ➤ Encouragement of public disclosure
	Measurement	40%	<ul style="list-style-type: none"> ➤ Taxonomy of potential environmental impacts ➤ Methodologies, tools, templates to measure/report impacts ➤ Reference to specific climate exposure methodologies
	Incentives	100%	<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	10%	<ul style="list-style-type: none"> ➤ FI operational bodies to report to the governing bodies on E&S strategy implementation
	E&S risk management	35%	<ul style="list-style-type: none"> ➤ Requirement to disclose E&S policy & its governance ➤ Requirement of E&S due diligences at client level ➤ Encouragement to site visit for high-risk transactions ➤ Training for front officers, second lines of defense, E&S experts ➤ Requirement to establish and maintain inquiry/complaints mechanism to FI's E&S/ESG practices ➤ Requirement to report regularly on E&S/ESG performance
	Enforcement	100%	<ul style="list-style-type: none"> ➤ Framework implementation regularly verify and information collected ➤ Financial and/or non-financial incentives for setting up ESRM ➤ Sanctions/penalties/warnings for non-compliance

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