

GLOBAL PROGRESS REPORT of the Sustainable Banking Network

Innovations in Policy and Industry Actions in
Emerging Markets

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Case Studies: Good Practices among Financial Institutions



Sustainable
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Network



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CASE STUDIES

Good practices among financial institutions

Market-Level FI Practices

China – Using KPIs to drive sustainability in Chinese banks

CBRC introduced the Green Credit Implementation Key Performance Indicators (KPIs) in 2014, and required the largest 21 banks to submit self-evaluation reports against those KPIs on an annual basis. These 21 major banks account for over 70 percent of China's banking assets.

Banks' self-evaluation reports, with supporting evidence, are verified by a third-party agency, under the supervision of a panel comprising CBRC, China Banking Association (CBA), and bank representatives. The 2018 findings identified progress in banks' development of ESMSs and integration of banks' green lending performance into business targets.

A number of KPIs stood out in terms of achieving a high level of compliance, including (i) integrating E&S risks into compliance check, (ii) including E&S covenants in loan agreements for category A&B clients, and (iii) ensuring staff have the necessary knowledge to review E&S risks and seek support from third parties as needed. 19 of 21 banks have complied with these requirements. The 2018 evaluation noted that banks' understanding of KPIs and the quality of supporting evidence vary from bank to bank, with leading banks consistently maintaining a high quality over the years. A steady and gradual improvement across all indicators is noted for all banks.

Indonesia – Standardizing sustainability reporting in the Indonesian banking sector

With OJK's issuance of the regulation on Sustainable Finance in 2017, the largest banks and foreign banks (around 55 banks) are required to submit annual action plans to OJK, setting out their implementation of the sustainable finance initiative, as well as to prepare an annual sustainability report.

In June 2018, eight Indonesian banks launched the Indonesia Sustainable Finance Initiative (ISFI) to support implementation of sustainable finance in Indonesia. OJK reviewed the portfolios of these eight banks in 2016-2018. They found that the green component of banks' portfolios is at 2 percent of total financing, with growth of 14 percent per annum from 2016 to 2018.

OJK data shows that as of December 2018, for eight banks surveyed representing over 50 percent of total banking assets, seven banks have formalized an E&S policy, while five banks have included E&S covenants in loan agreements and have defined an E&S function to varying extents. Gaps remain on climate aspects with only two banks tracking environmental benefits achieved.

Latin America – Tracking green finance performance of Latin American banks in 18 countries

In 2017, the Latin American Federation of Banks (FELABAN), IFC, and eco.business Fund joined forces to prepare a report on the state of green finance in Latin America. The goal of the report is to identify opportunities and challenges remaining for the adoption of sustainable banking practices, as well as the steps and achievements required from the banking sector to contribute to climate change mitigation. It is hoped that the results will feed into discussions and debates on the topic.

Methodology

The report analyzes the sustainable banking situation in 18 Latin American countries, with a focus on the private banking sector. The findings and conclusions are based on extensive desktop and market research, together with a survey carried out by 101 private banks in the region (58 percent of which were local banks).

Main findings

The report's results highlight the need for further commitment and investment from financial institutions in seizing opportunities offered by green and sustainable sectors, including renewable energy, sustainable agriculture, and energy efficiency.

It has been noted that numerous banks surveyed have now included E&S criteria in their credit and investment decisions, a significant improvement over previous years.

Figure 17: Green finance adoption

From Corporate Social Responsibility (CSR) to strategic business pillar.



Green products and services

49 percent of banks offered green products and 88 percent of the remaining ones expressed interest in doing so. However, demand for green products remains at the corporate banking level. There is thus a strong need to commercialize green products for small and medium sized clients, and the Latin American region is well positioned to face

this challenge. Indeed, the Green Bond market is a growing trend.

Sustainable finance strategic commitments

Only 46 percent of surveyed banks have committed to a green or sustainable finance strategy, making this dimension the least mature one. To promote this practice and guide FIs in engaging in sustainable practices, several countries have implemented mandatory and voluntary E&S sustainability protocols and guidelines.

ESRM

64 percent of respondents have an ERMS (environmental risk management system) in place, with IFC standards most commonly used. The rest of the FIs have adopted good practices in this area. ERMS's are mostly applied to corporate banking activities. Despite some barriers remaining – including lack of resources and knowledge, and resistance in corporate culture – banks seem to acknowledge the benefits arising from environmental risk management practices, such as reduced risks and costs, and improved reputation.

Eco-efficiency practices

This dimension is the most diverse, with 74 percent of the 101 participants applying eco-efficiency practices, with energy efficiency practices as the most common. However, improvements are still required at monitoring level, with only 68 percent of banks that have eco-efficiency practices also measuring the financial and environmental impacts of their actions.

Individual FI Case Studies

Pillar I: Strategic Alignment

XacBank – Align commercial bank lending to UN SDGs and NDC

XacBank is a leading financial institution in Mongolia and a pioneer in sustainable banking and climate finance. The bank's strategic direction is aligned with the Sustainable Development goals (SDGs) and with the government of Mongolia's commitment under the Paris Agreement to supply 20 percent of the country's energy through renewable energy by 2020, and 30 percent by 2030.

As the first commercial bank and first private entity from a developing nation to achieve National Implementing Entity accreditation for the Green Climate Fund (GCF) in 2016, XacBank is enabling action to slow climate change and adapt to the impacts already affecting Mongolia, including more extreme weather conditions, desertification, and urban air pollution. Climate finance products developed and marketed by XacBank include a business loan program with preferential rates for greenhouse gas (GHG) reduction projects by SMEs, a renewable energy loan facility for utility scale solar power projects, and an energy efficiency loan program for residential and commercial clients.

XacBank has also adopted international principles and standards for sustainability. For instance, XacBank has mapped its sustainable finance lending offerings to the SDGs. In support of SDG #5 for Gender Equality, at least 50 percent of GCF-financed business loans for GHG reduction projects must go to women-led businesses. In 2018, XacBank surpassed this target and achieved a 77 percent rate of lending to women-led businesses. In support of SDG #7 for Affordable and Clean Energy, XacBank co-financed a 10 MW utility scale solar facility that produces over 15,000 MWh per year of clean electricity for the Mongolian grid and will reduce GHGs by over 300,000 tonnes over the project's lifetime. XacBank is actively developing climate finance initiatives with the GCF to expand their lending activities in energy efficiency, renewable energy, and climate-smart livestock practices.

With its commitment to sustainable banking and climate finance, XacBank is playing a leadership role in enabling the growth of sustainable and climate-friendly businesses in Mongolia.

OECD example

BBVA Spain – Strategy update and commitments aligned with international best practices

At the 2018 United Nations Climate Change Conference (COP24) in Katowice (Poland), five leading banks (BBVA, BNP Paribas, Société Générale, Standard Chartered, and ING) committed to measure the climate alignment of their lending portfolios, and to explore ways to progressively steer financial flows through their lending towards Paris Agreement goals.

In 2018, BBVA launched the “2025 Pledge,” its climate change and sustainable development strategy, in which it sets three main objectives for the bank:

1. Increase financial mobilization in fields contributing to reaching the SDGs.
2. Manage environmental and social risks to minimize potential negative direct and indirect impacts.
3. Engage with stakeholders to promote the contribution of financial industry to sustainable development.

BBVA provides details for each of these three pillars and has implemented the following best practices:

- BBVA presents its commitments and performance in a dynamic way:
 - For pillar 1, BBVA presents both current exposure and targeted exposure up to 2025 for various economic sectors.
 - For pillar 2, direct environmental impacts are presented for 2015, 2020, and 2025.
- BBVA is aligned with most major initiatives, including:
 - The Green Bond Principles and Sustainable Bond Principles
 - The TCFD’s recommendations on metrics and targets.

BBVA is involved in multiple best practice initiatives, such as UNEP-FI, UN Principles for Responsible Investment, CDP, Equator Principles, UN Global Compact, RE 100, and the Social Bond Principles.

Pillar II: Climate and Green Finance

Ant Financial – Expanding the reach and impact of green digital finance

In January 2017, the United Nations Environmental Program and China’s Ant Financial jointly launched the Green Digital Finance Alliance. Launched at the World Economic Forum, the partnership aims to leverage digital technologies and innovations to enhance financing for sustainable development.

In 2016, Ant Financial developed the Alipay Ant Forest initiative to promote greener lifestyle choices by encouraging users to engage in low-carbon activities, such as paying utility bills online and commuting by walking or cycling instead of driving. Users earn “green energy” points that can be used to grow a virtual tree in Ant Forest within the Alipay app. With enough energy points, the virtual tree can be converted into a real tree and planted in the desert by Alipay and its philanthropic partners.

The Ant Forest program attracted 200 million users in the first six months, and currently has over 500 million users, resulting in over 100 million trees planted in Gansu Province, Inner Mongolia Autonomous Region, and other areas in China. Inspired by Alipay Ant Forest, Philippines-based GCash, Alipay’s e-wallet partner in the Philippines, recently introduced GCash Forest, a new feature accessible through the GCash app, which enables local users to contribute to reforestation and environmental preservation by adopting low carbon activities.

As part of a developing collaboration with IFC, Ant Financial is also seeking to expand its green digital finance business and develop for its clientele a first-of-its-kind Green Rating Standards for Micro and Small Enterprises (“MSEs”), many of which are sole proprietorships. Once the methodology has been validated, Ant Financial will integrate the standards as part of its online MSE green rating application and include it in the credit underwriting process.

HSBC Vietnam and GIC Investment Joint Stock Company, HDBank, and BIDV²⁹ – Green finance for solar power and climate resilience in Vietnam

Context – Modernizing Vietnam’s energy sector

As part of the Government of Vietnam’s commitment to the SDGs, initiatives are underway to modernize the energy sector, increase the use of renewable energy, reduce environmental impacts, ease the

²⁹ Information in this case study has been partly derived from the following sources: United Nations Industrial Development Organization (UNIDO). 2018. *Handbook on How to Access Green Financing in Vietnam*; HSBC Vietnam press release. 2019. *HSBC Vietnam is now supporting homeowners to invest in rooftop solar power with new ‘Green Loan’*; and Bach Khoa Investment and Development of Solar Energy Corporation (SolarBK) press release *BigK – The first rooftop solar power system in Vietnam accompanied by electricity insurance and finance service*, available at: <https://solarbk.vn/en/bigk-the-first-rooftop-solar-power-system-in-vietnam-accompanied-by-electricity-insurance-and-finance-service/>.

strain on the national power grid, and improve climate resilience. Several innovative green financing mechanisms have been launched by leading financial institutions in Vietnam, including i) a residential solar power green loan product from HSBC Vietnam, in collaboration with GIC Investment Joint Stock Company (GIC); ii) utility-scale and SME-scale solar power green loan programs offered by HDBank, and iii) innovative electricity insurance and green loan products from SolarBK Holdings, in partnership with Bank for Investment and Development of Vietnam Insurance Joint Stock Corporation (BIC) and Joint Stock Commercial Bank for Investment and Development of Vietnam (BIDV).

Growth phase – Expanding green financing options for solar power

In 2017, HSBC announced a global commitment to sustainable finance, and its intention to provide \$100 billion of sustainable financing and investment by the year 2025 around the world. As part of this initiative, HSBC Vietnam, in collaboration with GIC, has created a new green lending product to support the production and use of solar energy in residential areas. HSBC Vietnam's customers looking to install a rooftop solar energy system for a residential property are eligible to receive preferential financing rates and repayment periods. Participants are also eligible for purchasing discounts on solar power equipment from GIC.

HDBank of Vietnam is also providing green loan products for grid-scale solar power plant development, and for SMEs looking to install solar power systems on factories and warehouses. Eligible applicants benefit from access to loans up to 70 percent of the project's required investment capital cost, in addition to preferential lending rates and flexible, longer term repayment conditions.

SolarBK Holdings has partnered with Bank for Investment and Development of Vietnam (BIDV) and BIDV's insurance arm (BIC) to provide innovative electricity insurance in addition to green financing. Eligible participants can have a significant portion of the simulated energy output of the solar system guaranteed for a period of five years via BIC's electricity insurance product. Green loans by BIDV provide preferential rates and loan terms to incentivize the adoption of solar power technologies.

Moving forward – Energy sector modernization and climate resilience

With Vietnam's projected annual increase in power demand of 8 percent during 2021 – 2031, green finance and insurance innovations to promote solar power use are expected to continue to gain market acceptance and play a key role in mobilizing private sector investment to promote the sustainability of Vietnam's energy sector.

Access Bank – Leading the expansion of the green bond market in Nigeria³⁰

In June 2018, the Nigerian Securities Exchange (FMDQ), the Climate Bonds Initiative (CBI), and Financial Sector Deepening Africa (FSD Africa) collaborated to launch the Nigerian Green Bond Market Development Program. The program is designed to promote the use of green bonds and provides training and capacity development for regulators, bond issuers, and the investment community.

Access Bank is a leading African commercial bank operating a network of more than 600 branches and service outlets, spanning three continents, 12 countries, and 29 million customers. Building on its established reputation for sustainable finance and environmental and social risk management, Access Bank became the first bank to issue a certified corporate green bond in Africa on the FMDQ OTC Securities Exchange.

Access Bank's bond issuance is the first corporate green bond to benefit from the Nigerian Green Bond Market Development Program. Following the launch of the program, Access Bank established a Green Bond Committee in September 2018, with a specialized business unit to support its clients and to identify and realize environmental and climate change related investment opportunities. The team was guided by Access Bank's Green Bond Framework, a substantive policy document principally designed to guide the Bank's approach to financing/re-financing of identified eligible green assets and projects.

Issued in March of 2019, Access Bank's N15bn Fixed Rate Senior Unsecured Green Bond is rated AA with a five-year maturity, and was fully subscribed with participation from institutional investors, Pension Fund Administrators (PFAs), and high net-worth individuals. The bond was verified by PwC-UK and certified by the Climate Bonds Initiative. The net proceeds of the bond will finance/refinance solar power generation, flood water defense, sustainable agriculture projects, and green assets certified by the Climate Bond Standard. Access Bank will publicly report on the use of the bond's proceeds over time, in addition to sustainability impact metrics as part of a third-party verified Green Progress Report.

³⁰ Information for this case study has been partly derived from the following sources: FMDQ OTC Securities Exchange. April 1, 2019. *Access Bank PLC Pioneer Climate Bond Certified Green Bond* available at: <https://www.fmdqotc.com/63990-2/>; Market Screener. March 3, 2019. *Access Bank: N15bn Africa's First Green Bond Fully Subscribed* available at: <https://www.marketscreener.com/ACCESS-BANK-PLC-6500790/news/Access-Bank-N15bn-Africa-s-First-Green-Bond-Fully-Subscribed-28189450/>

IFC Green Bonds – Building the foundation for climate smart investments in emerging markets³¹

Since launching its Green Bond Program in 2010, IFC has established a unique ‘one stop shop’ offering a holistic approach to the development of green bonds, including acting as issuer, investor, and provider of advisory services and technical assistance to develop the potential of green bonds in emerging markets. Since 2015, IFC has helped 17 banks and non-bank financial institutions issue green bonds worth \$1.8 billion – nearly all of which were first-time green bond issuances. To date, IFC has issued approximately 150 green bonds in 16 currencies amounting to almost \$10 billion.

The prospects for further growth of green bond issuances in emerging markets are bright. Emerging market issuances of green bonds from 2012 to 2018 totaled \$140 billion cumulatively, with \$43 billion issued in 2018 representing 3 percent of total bond issuances in emerging markets. Outstanding green bonds in emerging markets are projected to increase to between \$210 billion and \$250 billion by 2021.

IFC has played a key role in developing the market infrastructure needed to promote green bonds, including assisting in the development of the Green Bond Principles (GBP), the most accepted guidelines for the issuance and impact reporting related to green bonds globally, and through the efforts of the Sustainable Banking Network and the IFC Green Bond Technical Assistance Facility (GB-TAP) to develop green bond frameworks, build capacity, and catalyze local bond issuances. IFC is also taking the lead on deploying innovative ways to mobilize private capital to fill the financing gap required to tackle climate change through pioneering funds including the Emerging Green One (EGO) Bond Fund and the Real Economy Green Investment Opportunity (REGIO) Bond Fund.

Building on a decade of engagement in the green bond market, IFC is positioned to continue to play a key leadership role as a collaborator and innovator to help catalyze the use of green bonds to unlock financing for climate smart investments in emerging markets.

Argentina’s Banco Galicia – Moving forward with climate smart agriculture and green lending in Argentina

As part of its commitments under the Paris Agreement on climate change, the Government of Argentina has been pursuing policies to enable climate-smart agriculture (CSA) and promote the greening of its financial institutions. IFC has collaborated with Argentina’s largest

bank, Banco Galicia, to realize investment opportunities for CSA, biofuels, renewable energy and other resource efficiency projects as part of Argentina’s objective to reduce greenhouse gases and produce 20 percent of the country’s electricity needs from renewable sources by 2025.

As part of this effort, IFC worked with Banco Galicia to develop its technical capacity to identify and develop green-lending opportunities, including the development of a green bond framework, and aligning the bank’s organization and processes with the Green Bond Principles. In 2018, Banco Galicia successfully issued the first green bond by a private sector institution in Argentina, valued at \$100 million with a seven-year tenor.

IFC fully subscribed to the \$100 million bond, which has enabled Banco Galicia to increase its investments in energy efficiency, biofuels and renewable energy, and sustainable construction projects that span corporate and agribusiness lending. In fiscal year 2018, Banco Galicia financed \$9.5 million in climate-friendly investments which are expected to reduce GHG emissions by 190,000 tons CO₂e.

The IFC partnership with Banco Galicia has created a market for climate finance in Argentina, and the successful launch of the green bond has triggered interest from several other banks in the country and across Latin America.

Bancolombia and Davivienda – Innovations in green lending and climate smart investment in the construction sector

Colombia’s population is rapidly urbanizing, with 75 percent of Colombians now living in cities. Consequently, the country has one of the fastest growing construction sectors in the world. Opportunities for climate-friendly projects as part of urban development are a key facet of Colombia’s commitment to the SDGs, as well as the country’s target to reduce greenhouse gases by 20 percent by 2030 as part of the Paris Agreement on climate change. Bancolombia and Davivienda are two leading Colombian financial institutions leading the charge to expand green finance opportunities in Colombia.

With 30 percent of its portfolio in the construction market in Colombia, Bancolombia began a collaboration with IFC in 2016 to build capacity for climate-friendly investments in the construction sector. This led to Bancolombia becoming the first private financial institution to issue green bonds in Latin America in late 2016, including a \$115 million green bond fully subscribed by IFC. To date, approximately half of the bond proceeds are financing construction projects involving buildings with Leadership in Energy and Environmental Design (LEED) certification, while the remaining proceeds are financing renewable energy (with a focus on small hydro facilities), and energy efficiency projects.

For Colombia, the Bancolombia bond issuance with IFC created a new market in the country for climate-friendly investments. In

³¹ Information in this case study has been partly derived from the following sources: Amundi Asset Management and International Finance Corporation (IFC). 2018. *Emerging Market Green Bonds Report* available at: <https://www.ifc.org/wps/wcm/connect/9e8a7c68-5bec-40d1-8bb4-a0212fa4bfbf/Amundi-IFC-Research-Paper-2018.pdf?MOD=AJPERES>; and other information from the IFC Green Bonds website: https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/investor+relations/jr-products/grnbond-overvw

2017, Davivienda joined the green finance wave and launched the largest green bond issuance at the time, a \$150 million green bond fully subscribed by IFC. Davivienda's green bond is financing the construction of two large climate-friendly office buildings with significant energy and water savings, in addition to investments supporting cleaner energy production, energy efficiency, and renewable energies—particularly hydropower, biomass, wind, and solar energy.

JSE and Nedbank – Leading the charge for Green Bonds in South Africa³²

In 2017, the Johannesburg Stock Exchange (JSE) launched the Green Bond Segment following a series of successful multi-stakeholder consultations and market-wide awareness raising events led by JSE and South Africa's Financial Services Conduct Authority (FSCA), with the support of IFC.

The JSE has aligned its Green Bond listing requirements with international best practice, including the Green Bond Principles. To ensure the integrity of the green bonds, the JSE requires institutions issuing these products to appoint an independent, external reviewer and to disclose the proceeds generated through the issuance as well as how the funds are to be allocated over the lifetime of the bond.

In April 2019, Nedbank became the first commercial bank in South Africa to list a green bond on the JSE's Green Bonds Segment as part of Nedbank's pioneering renewable energy green bond. The issue was oversubscribed by 3.28 times at auction with a final allocation of R1.7 billion, and Nedbank succeeded in diversifying the order book to include international investors.

In accordance with the JSE's requirements, Nedbank engaged the Climate Bonds Initiative to act as the certification agency and appointed the Carbon Trust to be the approved verifier. The bond's proceeds support investments in underlying renewable energy assets, including three 75 megawatt (MW) solar power plants and a 120 MW wind energy development, all slated to begin commercial operation in 2020. Collectively, these projects are projected to reduce annual greenhouse gas emissions by over 200,000 tonnes.

As the South African green bond market further deepens, issuers will be encouraged to strengthen their credentials as sustainable and

socially responsible organizations. As a pioneer in this space, Nedbank has recently undergone a process of aligning its commercial activities with the SDGs, the result of which has been the commitment of a significant portion of the bank's lending book towards sustainable activities, particularly in the renewable energy space.

OECD example

Société Générale – Sustainable and Positive Impact Finance

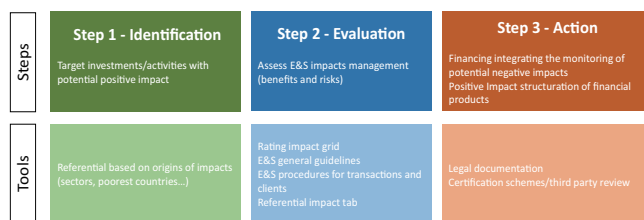
The momentum of impact finance is growing. Two major initiatives aim to promote the concept, and to develop the methodologies and transparency of financial institutions.

- The *UNEP-FI Positive Impact Initiative* – led by UNEP-FI members across the finance chain, as well as a range of public and private stakeholders beyond the finance sector – focuses on addressing SDG financing.
- The *Operating Principles for Impact Management* have been developed by IFC in consultation with external stakeholders, including impact asset managers, asset owners, and industry associations. The nine principles defined by IFC are articulated through five key steps: strategy, creation and structuring, portfolio management, exit, and independent audit.

In response, Société Générale Group has established its own Sustainable and Positive Impact Finance analytical framework. It is underpinned by a few key methodological choices:

- It intends to remain linked to the ongoing development of leading E&S standards.
- It aims to encompass a variety of sustainable development issues, including environmental, social and societal, governance, and economic development.
- It considers both positive impacts and the treatment of negative impacts.
- It covers all the activities of Société Générale Group.

For each potential transaction, the framework is implemented in three steps, as detailed below:



³² Information for this case study has been partly derived from the following sources: Johannesburg Stock Exchange (JSE). October 2017. *Press release: JSE Launch of the Green Bond Segment* available at: <https://www.jse.co.za/articles/Pages/JSE-launches-Green-Bond-segment-to-fund-low-carbon-projects.aspx>; JSE. April 2019. *Press release: Nedbank Limited's Listing on the JSE Green Bond Segment* available at: [https://www.jse.co.za/articles/Pages/Nedbank-Limited-lists-a-Green-Bond-on-the-Johannesburg-Stock-Exchange-\(JSE\).aspx](https://www.jse.co.za/articles/Pages/Nedbank-Limited-lists-a-Green-Bond-on-the-Johannesburg-Stock-Exchange-(JSE).aspx); Sustainable Banking Network (SBN). 2018. *Creating Green Bond Markets: Insights, Innovations, and Tools from Emerging Markets*. Available at: www.ifc.org/sbngreenbond; and Nedbank. 2019. Case Study: Nedbank Green Renewable Energy Senior Unsecured "Use of Proceeds" Bond.

First, potential “positive impact” transactions are identified based on their sector or location. Société Générale’s framework states that projects with the following characteristics are eligible for a positive impact categorization:

Positive impact sectors Electric power production (Wind), agriculture, forestry, energy, water, healthcare	Poorest countries UN least developed countries World Bank criteria: low-income and lower-middle-income economies	Transversal improvements Energy efficiency, food security, GHG emissions reduction...
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The second step consists of a more thorough evaluation of positive and negative project impacts. Seventeen expected impact categories have been developed.

Projects are rated from zero (impact management is unsatisfactory) to four (positive impact) for each applicable impact category.

Eventually, projects that can demonstrate positive impacts, with negative impacts that can be identified and remediated, will be considered as having a ‘positive impact’. Monitoring of remediation might be included in legal documentation; this would represent the third step of the assessment process.

Natixis (France) – Green Weighting Factor

In March 2018, the European Commission launched its Action Plan on Sustainable Finance. The plan has three main objectives:

- To re-orient capital flows toward sustainable investment, to achieve sustainable and inclusive growth;
- To manage financial risks stemming from climate change, environmental degradation, and social issues; and
- To foster transparency and long-termism in financial and economic activity.

To achieve these three objectives, the Action Plan sets out a **comprehensive strategy**, including the following key actions:

- Establish a clear and detailed EU classification system (taxonomy) for sustainable activities;
- Establish EU labels for green financial products;
- Introduce measures to clarify asset managers’ and institutional investors’ duties regarding sustainability;
- Strengthen the transparency of companies on their ESG policies (ensuring issuers provide the right information to investors);
- Introduce a “green supporting factor” in the EU prudential rules for banks and insurance companies.

In recent years, Natixis, a French corporate and investment bank, has set itself objectives regarding the financing of green activities, namely by committing 10 percent of its investments each year to green assets.

To support this objective – and to anticipate a potential European move to promote green assets via prudential ratios – the bank has introduced a new in-house capital allocation mechanism called the “Green Weighting Factor.”

According to Natixis, this Green Weighting Factor “aims to promote finance deals with a positive impact on both the climate and the environment, by adjusting the expected profitability threshold on these various transactions according to their effects on climate change.”

The Green Weighting Factor applies a positive adjustment to analytical risk-weighted assets (RWA) for deals that create affirmative climate and environmental action, and a negative adjustment for deals with an adverse environmental impact. Natixis is testing its green weighting factor in four sectors: real estate, electricity, mining, and automotive.

The next steps for this initiative will be to broaden the scope of sectors covered by the Green Weighting Factor and to integrate the future taxonomy of the European Union into the framework.

Standard Chartered – Harnessing emissions data to unlock climate investment opportunities

Standard Chartered is working to help its clients, communities, and stakeholders contribute to the achievement of the Paris Agreement climate goal to keep warming below 2 degrees Celsius. In September 2018, Standard Chartered made the commitment to stop financing any new coal-fired powerplants anywhere in the world – a key step in the bank’s development of a strategy to mobilize sustainable finance in the markets where it matters most across Asia, Africa, and the Middle East. The Bank is already committed to finance and facilitate \$4 billion in clean technology by 2020.

As part of these efforts, Standard Chartered recognizes the need for accurate greenhouse gas emissions data that can be used by all financial institutions to ensure capital flows efficiently towards the \$23 trillion in global climate investment opportunities over the next decade. In the last year, Standard Chartered has taken on this collective challenge of developing new emission measurement methodologies to allow financial institutions to measure, manage and ultimately reduce the emissions related to their own activities and those related to the financing of clients.

In a recently released white paper,³³ Standard Chartered describes its experience with pilot programs to test two emerging methodologies to help measure the emissions related to its financing: one at product level using a manual calculation process, and the other at sector level using an automated software solution. The white paper discusses the respective strengths and weaknesses of each methodology and invites global financial institutions to join the collaborative effort to refine and

³³ Emissions White Paper Executive Summary, Standard Chartered, May 2019. Available at: <https://av.sc.com/corp-en/content/docs/emissions-whitepaper.pdf>

promote a common approach to measuring emissions.

To promote collaboration in the development of a common methodology, Standard Chartered has engaged in platforms including the Katowice Commitment,³⁴ alongside BBVA, BNP Paribas, Société Générale and ING. It is also actively working with the Asia Sustainable Finance Initiative (ASFI), led by the World Wildlife Fund (WWF) and United Nations Environment Programme (UNEP-FI), to engage banks within markets across Asia, Africa, and the Middle East.

Pillar III: ESG Integration

Industrial Bank – Evolution of governance structures to drive growth in sustainable finance

Since becoming the first Chinese bank to adopt the Equator Principles (EP) in 2008, Industrial Bank (IB) has been a leader in sustainable finance across sectors such as renewable energy, energy efficiency, and water and waste management, among others. A robust sustainability strategy and effective governance structure has been a key success factor in the growth of IB's sustainable finance business.

IB's entrance into the sustainable finance space began in 2006 as part of a cooperation with IFC to launch China's first energy efficiency project financing products. At that time, a small team from the corporate business line was formulated to implement this special financial product.

Beginning in 2009, IB's senior leadership at the board-level established a steering committee to guide the implementation of the Equator Principles and entrench green finance as a core value in the bank's corporate policies, business strategy, and culture. At the institutional level, a Sustainable Finance Center was established in 2009 to guide this transition and evolved, in 2012, into the establishment of Green Finance Departments as top-tier departments in headquarters and at 30 tier-one branches nationwide. The Green Finance Departments coordinated professional research, product innovation, marketing management, project review, operation management, and brand building.

E&S risk management policies and a range of survey, analytical, and risk monitoring tools, in addition to IT support and legal systems, were progressively rolled out as part of the development of IB's E&S management system (ESMS). IB established a bank-wide linkage mechanism to clarify the specific roles and responsibilities for sustainable financial management across various operating agencies of the Bank, including legal, compliance, credit review, and risk management functions.

IB has also aligned employee and management incentive structures to promote green finance growth, including establishing green finance business development as a corporate and branch-level key performance indicator (KPI); arranging a special green credit line on an annual basis to ensure that green financial projects are not subject to scale restrictions; setting up special funds to facilitate green lending initiatives and products, including green bonds; and using dedicated review of green finance projects by specialized teams in the credit review process to prioritize approval. To embed sustainability throughout the organization, IB has organized more than 400 trainings over the last 10 years and has trained nearly 50,000 employees.

In 2015, IB group identified green finance as its core business

³⁴ Information on the Katowice Commitment is available at: <https://www.sc.com/en/media/press-release/weve-pledged-further-support-for-action-on-climate-change/>

development strategy not just for its banking operations, but also for leasing, trusts, funds, and capital market operations. IB was rewarded the “Best Green Bank in China” award in 2017 and 2018 by the UK’s Global Banking & Finance Review, and the “Best Green Bond Issuance in Emerging Market Countries in 2018” by the Climate Bond Initiative.

BRAC Bank and City Bank – Striving to be the market leaders in Green Finance in Bangladesh³⁵

Since 2011, the Central Bank of Bangladesh has developed a number of policies to promote sustainable finance, including, among others, the Policy Guidelines on Green Banking, with a requirement for Bangladeshi banks to adopt the guidelines by 2013, and the Guidelines on Environmental and Social Risk Management (ESRM) in 2017. These guidelines encourage banks and financial institutions (FIs) to incorporate environmental and social risk management into their credit activities, and to publish green banking and sustainability reports. These guidelines reflect the commitment of the Government of Bangladesh to sustainability, and the importance of the banking and financial sector in helping Bangladesh to achieve progress toward the SDGs.

As an early adopter of sustainable banking principles, BRAC Bank has established itself as a regional leader in green lending and sustainable finance. In response to the guidelines of the Central Bank, BRAC Bank established a Sustainable Finance Unit (SFU) at the operational level as part of its credit risk management. The SFU identifies, develops, and implements financing solutions for clients across a number of green sectors and technologies. The SFU is overseen at the managerial level by the Sustainable Finance Committee (SFC), chaired by the Deputy Managing Director and Chief Risk Officer. Both the SFU and the SFC are overseen by the Board Risk Management Committee, supervising all of BRAC Bank’s sustainability activities.

City Bank adopted an environmental risk management framework in 2012, which evolved into a comprehensive environmental and social management system (ESMS) based on the IFC Performance Standards in 2016. City Bank’s environmental and social risk management is managed by a dedicated senior management official, who reports to the bank’s Sustainable Finance Committee comprising representatives from the bank’s major departments, which is itself overseen by the Board Risk Management Committee.

BRAC Bank offers over 50 green lending products across over 30 sectors and technologies in the bank’s green lending portfolio

(percentages represent the sector’s share of BRAC Bank’s green lending portfolio in 2018), including effluent treatment plant financing (43 percent); energy efficiency initiatives (32 percent) featuring Bangladesh’s first Energy Efficiency Financing Loan to assist ready-made garments and textile industries to invest in energy efficiency technology; green buildings (21 percent); renewable energy (2 percent), and recycling (2 percent), among others. By offering clients a suite of services – including technical support, sustainability advice, and blended finance solutions – BRAC Bank is playing a leadership role in the expansion of green lending in emerging markets.

In 2018, City Bank disbursed over BDT 1,359 m in green finance and energy-efficiency projects. To measure the reduction in energy consumption and CO2 emissions of its lending portfolio, the Bank has three in-house certified energy auditors. As of end 2018, the proportion of Green Finance was 4.06 percent of the total funded loan disbursement, and City Bank is actively working to expand green financing opportunities moving forward.

Ecobank – Aligning ESRM practices with international standards

Ecobank is the leading pan-African bank, with a presence in 36 countries across the continent. As a signatory to the Equator Principles since 2012, Ecobank has established a reputation as a leader in sustainable banking. Ecobank is an active member of UNEP-FI and its Africa Task Force, and a signatory to the UN Global Compact.

As part of the implementation of the Equator Principles, Ecobank developed a corporate Environmental and Social Policy in 2014 using international standards, including IFC’s Performance Standards. The policy received Board approval and has been implemented at the management-level through Ecobank’s Environmental and Social Management System (ESMS). Environmental and Social Due Diligence (ESDD) is undertaken for transactions in the corporate, project finance, commercial retail, and SME business lines, and across sectors including oil, gas and mining, agribusiness, manufacturing, heavy construction (infrastructure), power generation transmission, and distribution, and real estate.

As described in the graphic below, Ecobank undertakes ESDD as part of a multi-stage process. The screening stage determines whether the proposed investment is compatible with Ecobank’s Exclusion List and sector strategies, while the E&S classification step assigns the investment a risk category based on the degree of E&S impacts.

The E&S due diligence assessment is informed by the review of E&S studies and site field visits. Corrective measures to ensure the project meets Ecobank’s E&S policies and standards are agreed with the client for implementation according to a specific timeframe as part of an E&S Action Plan (ESAP) incorporated in the investment agreement. Compliance is monitored by Ecobank’s Relationship Manager and the E&S Manager.

³⁵ Information for this case study was partly derived from the following sources: BRAC Bank. 2018. Disclosure on Green Banking Report available at: <https://www.bracbank.com/storage/app/public/pdf/Disclosure-on-Green-Banking-2018.pdf>; Sustainable Banking Network (SBN). Country Progress Reports: Bangladesh available at: <https://www.ifc.org/wps/wcm/connect/9bf5ffc5-9696-4d78-80eb-8127fd72ca07/SBN+Country+Progress+Report+-+Bangladesh.pdf?MOD=AJPERES&CVID=mcXM3Rj>; and BRAC Bank Sustainability website, available at: <https://www.bracbank.com/en/sustainable-banking>

Stage				
Screening	Classification	Due Diligence	E&S Action Plans	Compliance monitoring and reporting
Inputs				
Exclusion List	E&S checklist and risk classification criteria	Ecobank due diligence / assessment (E&S checklist and sector guidelines)	Formulation of E&S Action Plans	Ecobank E&S risk, total exposure, loan conditions, reporting template
Outputs				
Decision to proceed or reject	E&S risk classification, due diligence requirements	Specific E&S requirements and mitigation measures	Incorporation of due diligence in Action Plan and Offer Letter	E&S monitoring report; Ecobank supervision of E&S performance

Ecobank undertakes an annual E&S risk portfolio review led by the Internal Control, Internal Audit, and E&S Risk Management teams. Transactions are reviewed for compliance with the ESMS process based on the E&S reporting submitted by the client and site visits. Findings from the review are documented, and feedback and requests on E&S practices are communicated to the client.

Ecobank produces a corporate E&S report as part of its sustainability and disclosure policies, and provides regular ESG performance reports to international sustainability initiatives, including the Equator Principles, UNEP-FI, and the UN Global Compact, as well as its development finance institution (DFI) partners, including IFC.

OECD example

ING – Comprehensive environmental and social risk management framework

UNEP FI's Principles for Responsible Banking, published in November 2018, intend to align banks with society's goals, as expressed in the SDGs, and with the Paris Agreement. The Principles were developed by 28 banks assisted by 12 civil society organizations.

Principle 5 commits signatory banks to continuously increase their positive impacts while reducing their negative impacts and risks to people and environment arising from their activities, products, and services.

ING has developed an Environmental and Social Risk (ESR) Framework. The Framework (reviewed in 2018) applies to all business activity, meaning that transactions and clients are screened against it. However, the level of due diligence and monitoring varies depending on the nature of the client and service provided. The trigger for applying the ESR Framework comes from a new business engagement.

Several functions within the bank are involved in the screening process:

- Front Office – the departments which have direct client contact and originate transactions
- Risk Management – the departments which provide controls over Front Office activities
- ESRM teams – for high risk transactions only
- KYC teams – the teams assessing the ESR client risk profile of corporate clients

The ESR checks are integrated as part of the check processes on the client side as well as on the transaction side, ensuring a proper assessment and management of E&S risks.

In case of low or medium-risk transactions, front office staff and risk managers proceed with the engagement. For high-risk transactions, the ESR team carries out additional analysis and provides operational teams with advice. The ESR Frameworks also include monitoring of client ESR profiles and high-risk transactions. The transaction rating and client rating are then combined into a single risk profile for the engagement (ESR low risk, ESR medium risk, ESR high risk or unacceptable).

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