

Colombia

Country Progress Report

April 2022

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



Sustainable
Banking and
Finance
Network



Acknowledgements

This Country Progress Report was developed by the SBFN Secretariat under the leadership of the SBFN Measurement Working Group and with guidance from the SBFN Latin America and the Caribbean Regional Coordinator, Marcela Ponce. Data are provided by the Financial Superintendence of Colombia (SFC) and Banking Association of Colombia (Asobancaria) and verified by SBFN. The team is grateful for the support and guidance from all SFC and Asobancaria representatives who provided data, participated in interviews, and reviewed and provided comments to this report, in particular Mariana Escobar Uribe, SFC Advisor to the Financial Superintendent of Colombia; Paola Andrea Arias Gómez, SFC Advisor at the Sustainable Finance Working Group; Hernán Mauricio Vélez García, Asobancaria Sustainability Director; Isabel Teresa Mantilla Naranjo, former Asobancaria Sustainability and Financial Education Director; and Rodrigo Alejandro Mesa Esteban, Asobancaria Sustainability Professional.

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.

© International Finance Corporation [2022], as the Secretariat of the Sustainable Banking and Finance Network (SBFN). All rights reserved. 2121 Pennsylvania Avenue, N.W. Washington, D.C. 20433 Internet: www.ifc.org. The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC and SBFN encourage dissemination of their work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC and SBFN do not guarantee the accuracy, reliability, or completeness of the content included in this work, or the conclusions or judgments described herein, and accept no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

This work was prepared in consultation with SBFN members. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank Group, IFC, or the governments they represent. The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, some of the companies and parties named herein.

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433. International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

Contents

1

Overall country progress – Colombia

1. SBFN member institutions
2. Other key institutions and national initiatives promoting sustainable finance
3. Overall progress
4. Country sustainable finance journey
5. COVID response
6. Ambitions for the next phase
7. SBFN and IFC role

page 2

2

Progress by three pillars

Pillar 1: ESG Integration
Pillar 2: Climate Risk Management
Pillar 3: Financing Sustainability

page 7

3

Progress by three sub-pillars and 11 indicators

Sub-pillar 1: Strategic Alignment
Sub-pillar 2: Regulatory and Industry Association Actions
Sub-pillar 3: Expectations of Financial Institution Actions

page 13

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

page 14

5

SBFN measurement framework and methodology

Summary of the SBFN measurement framework, a systematic approach to benchmark country progress in developing national enabling frameworks for sustainable finance

page 15

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

1. Overall country progress – Colombia

1.1 SBFN member institutions:

[Banking Association of Colombia \(Asobancaria\)](#)

Member Since: 2012

Working Groups:

Measurement
Sustainable Finance Instruments
Data and Disclosure

[Financial Superintendence of Colombia \(SFC\)](#)

Member Since: 2018

Working Groups:

Measurement (Co-Chair)
Sustainable Finance Instruments
Data and Disclosure

1.2 Other key institutions and national initiatives promoting sustainable finance

[Colombian Stock Exchange](#)

[Central Bank of Colombia](#)

[Ministry of the Environment and Sustainable Development](#)

[Federation of Colombian Insurers \(Fasecolda\)](#)

[Colombian Association of Microfinance Institutions](#)

[\(Asomicrofinanzas\)](#)

[Responsible Investment Taskforce](#)

[Sustainable Colombia Initiative, 2015-2030](#)

[Green Taxonomy Workplan](#)

[Ministry of Finance and Public Credit](#)

[National Planning Department](#)

[ColCapital \(Private Capital Association of Colombia\)](#)

[Asofondos \(Colombian Association of Pension and](#)

[Unemployment Fund Administrators\)](#)

[Asofiduciarias \(Trust Companies Association\)](#)

1.3 Overall progress

Colombia has **moved up to the “Consolidating” sub-stage of the “Maturing” stage** from the “Advancing” sub-stage of the “Implementation” stage of the Overall SBFN Progression Matrix. In 2020 and 2021, SFC issued the Mandatory Requirements for Pension Funds for environmental, social, and governance (ESG) Integration; Best Practices for the Management of Investments of the Administrators of the General Pension System; Instructions Related to the Issuance of Green Bonds on the Stock Market, the Green Bond Guide; Instruction Related to the Disclosure of Information on Social and Environmental Issues, Including Climate; and the Banking Sector Vulnerability Analysis, conducted with World Bank support. The Colombian Stock Exchange also issued the Guide for the Preparation of ESG Reports for Issuers in Colombia. These policies significantly deepen and broaden the implementation of sustainable finance in the non-banking sectors. Colombia's sustainable finance framework addresses ESG integration, climate risk management, and financial sustainability. Its coverage has extended from the banking sector to the rest of the financial sector ecosystem, including pensions, capital markets, and asset management. Consistent data on ESG risk management and sustainable finance flows are starting to become available, though sustainable finance data are more forthcoming from the banking sector than from the non-banking financial sectors. In March 2022, SFC, with the support of IFC, the World Bank, SBFN, launched the first phase of the Colombian Green Taxonomy.

Figure 1: SBFN Progression Matrix - Overall Country Progress



1.4 Country sustainable finance journey

Figure 2: Colombia's sustainable finance journey



2021

SFC issues CE07-2021 for mandatory pension funds regarding their investment policies, instructing AFPs to consider and integrate ESG issues as risk factors. This should be reflected in their organization structure and investment policies. This instructions are also directed to Insurers, in a scheme of 'comply or explain'

SFC issues CE08-2021 for voluntary pension funds, instructing voluntary funds with a Sustainability, Green, Social, or other ESG dimension denomination to justify the denomination and report on its performance (results or impact)

SFC publishes the Technical Document on ESG and Climate Disclosure, which is the input for the ESG and climate disclosure and the input for the mandatory ESG and climate disclosure instructions, issued under External Circular 031-2021

Asobancaria updates the General Guidelines for the Implementation of Environmental and Social Risks Analysis, including Climate Risks, and a specific guideline for Microfinances has been launched, as well as a new Guideline for the implementation of TCFD

Asobancaria develops a new committee targeting gender equality and social issues

SFC collaborates with Two Degrees Investing Initiative on stress-testing and alignment analysis of pension funds

SFC, with support from the World Bank Group, publishes the report Not-So-Magical Realism: A Climate Stress Test of the Colombian Banking System

SFC creates the Sustainable Finance Working Group to implement SFC's sustainability strategy, including a sustainable finance taxonomy, ESG integration by financial institutions, climate risk, and capacity building

The Extended Green Protocol changed its name to "The Sustainable Finance Roundtable for the Financial Sector" to include all sustainability strategies – Climate and Environment, Social (Financial Inclusion and Gender Equality) and Governance

2019
2020

SFC publishes Risks and Opportunities of Climate Change, a statement document

The Colombian Stock Exchange issued the Guide for the Preparation of ESG Reports for Issuers in Colombia

Circular 028: Instructions Related to the Issuance of Green Bonds on the Stock Market; Green Bond Guide

Central Bank of Colombia releases Climate Change: Policies to Manage its Macroeconomic and Financial Effects

SFC conducts survey to reveal risks and opportunities related to climate change for the broad financial sector

91 percent of banking assets covered by ESG integration requirements in the national sustainable finance framework

99 percent of banks report their ESG activities/ performance regularly to SFC

90 percent of banks report on overall climate risks and/or approach to managing climate risk

37 percent of banks undertake environmental/ climate risk-related scenario analysis and/or stress testing

65 percent of banks have a decarbonization strategy, and 53 percent of banks have TCFD-aligned reporting

Green bond issuance to value of \$582 million

2022

SFC, with the support of IFC, the World Bank and SBFN, launches the Colombian Green Taxonomy, defining what types of projects are green

Asobancaria releases the Colombia's Green Protocol, which has incorporated Climate Change action as strategy.

Asobancaria creates a Strategic Board of Sustainability to achieve the SDGs, in which presidents of the banks are responsible of defining the objectives and targets for four strategic pillars: 1. Financial education and inclusion, 2. Climate Change, 3. Diversity, Equity and Inclusion, 4. Corporate Governance for Sustainability

1.5 COVID response

As a result of COVID-19 there are more sectors in need of a green recovery. While environmental considerations are always of the utmost importance, since the onset of the pandemic, unaddressed social and governance concerns are becoming higher priorities as the pandemic has brought into sharper focus unaddressed social issues. In May 2020, Financial Superintendence of Colombia (SFC) issued guidelines on in-person customer service for banks and financial entities, ordering measures such as opening at least 85 percent of their branches, extending opening hours, and establishing priority service hours for people over 60 or with special conditions.

1.6 Ambitions for the next phase

With the help of the World Bank, SFC is working on best practice around vulnerability analysis and identification, the results of which will be available in mid-2022. SFC is also working with the Two Degrees Investing Initiative on stress-testing and alignment analysis of pension funds, the results of which were published during 2021. The next phase will also include a push to increase transparency around any sustainability claims or sustainable product labelling for collective investment funds. SFC expects to launch climate risk analysis and recommendations for the banking sector and conduct Green Taxonomy workshops in order to communicate the Green Taxonomy Document and facilitate its implementation. Asobancaria is currently developing a project with 2DII, PACTA and three banks, with support from IFC, to measure financial portfolios' alignment with various climate scenarios consistent with the Paris Agreement. The purpose is to develop a tool kit for banks in order to measure their financial portfolios emissions and climate risks under the Colombian context. Asobancaria and the Colombian Government, supported by IFC and the European Union, is also drafting a new Social Protocol for the Diversity, Equity and Inclusion in the financial system. It is also designing workshops and guidelines to foster new financial solutions for projects in circular economy, silvopasture and silviagriculture systems, bioeconomy, and transport electrification.

1.7 SBFN and IFC role

IFC has provided advisory services to Asobancaria and SFC for their sustainable finance initiatives and capacity building, in partnership with the Swiss State Secretariat for Economic Affairs (SECO), Swedish International Development Cooperation Agency (SIDA), and Luxembourg. Asobancaria and SFC have shared their experience with other SBFN members and benefited from the collective SBFN knowledge base.



The SBFN was crucial in the development of the SFC strategy and action plan; becoming a member was the starting for our journey to green the Colombian financial system. Participating and sharing experiences with peers helps us as regulators, and supervisors are able to overcome barriers to advance a green and sustainable agenda in an emerging market.



Mariana Escobar Uribe
Head of Sustainable Finance, Financial
Superintendence of Colombia (SFC)



Addressing climate change challenges requires global cooperation and joint work. For this reason, the Sustainable Banking and Finance Network (SBNF) is essential for aligning efforts from emerging markets and establishing a common roadmap based on best practices.

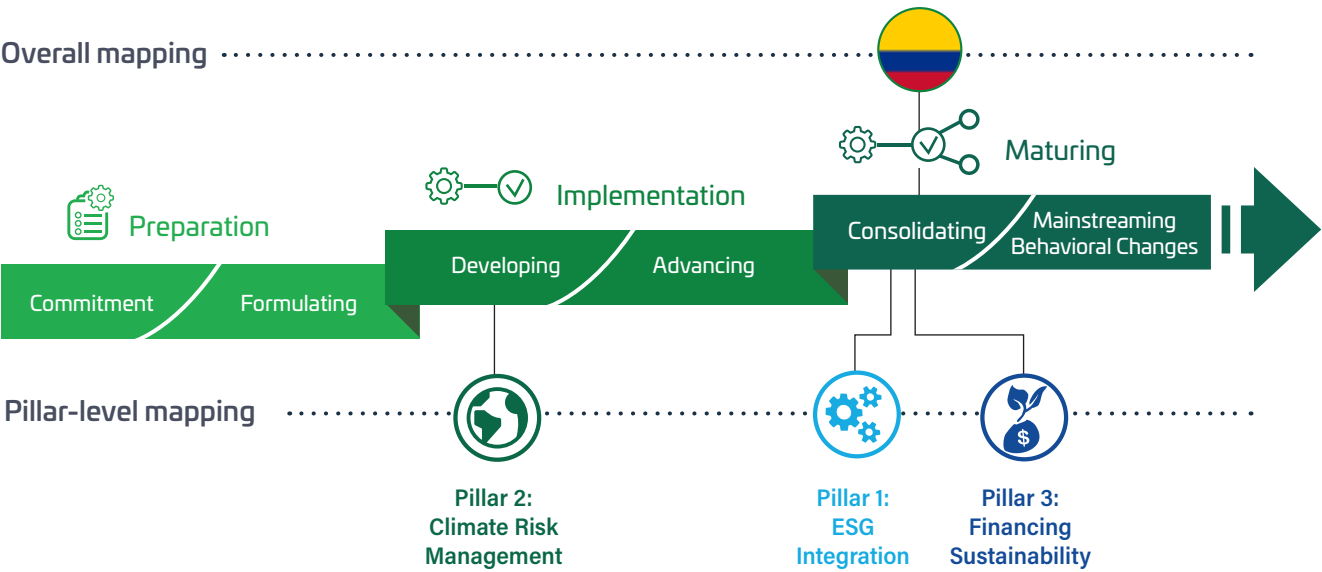


Hernán Mauricio Vélez García
Director of Sustainability, Banking Association of Colombia
(Asobancaria)



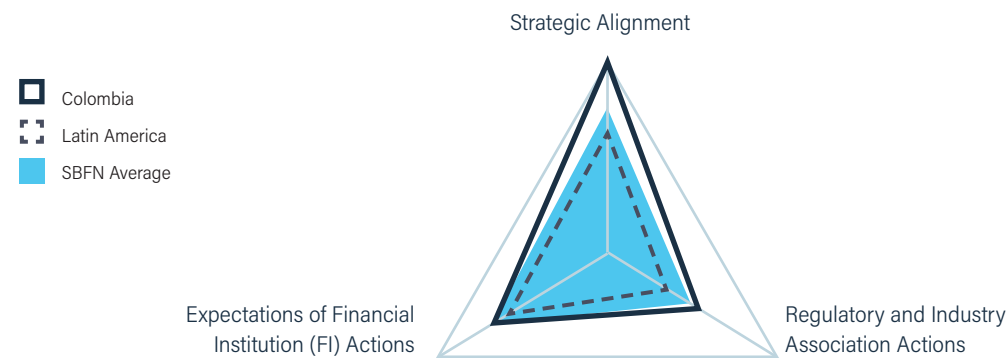
2. Progress by three pillars

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



Pillar 1: ESG Integration Pillar Progress: Consolidating

Colombia is mapped under the **“Consolidating” sub-stage of the “Maturing” stage** of the ESG Integration Pillar. Its national framework extends beyond the banking sector and promotes ESG integration across the financial sector ecosystem. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and consistent and comparable data is starting to be available about ESG implementation for financial institutions (FIs).



Sub-pillar 1: Strategic Alignment

- Colombia's national frameworks for the banking sector and non-banking sector, for example, Colombia's Green Protocol (Asobancaria, 2012) and General Guidelines for the Implementation of E&S Risk Analysis (Asobancaria, 2016), set out expectations for integrating the consideration of ESG risks and performance.
- The financial sector's approach to ESG integration is

aligned with international good practices and standards, such as the UN Sustainable Development Goals (SDGs), IFC Performance Standards, and the Equator Principles.

- The framework (Green Protocol) was developed and/or implemented in close consultation with Colombia's Ministry of the Environment and Sustainable Development.
- SFC published CE07-2021 for Mandatory Pension Funds regarding their investment policies, which instructs AFPs to consider and integrate ESG issues as risk factors. This should be reflected in their organization structure and investment policies. These instructions are also directed to insurers, in a scheme of 'comply or explain'.
- SFC published CE08-2021 for Voluntary Pension Funds, which instructs those voluntary funds with a Sustainability, Green, Social, or other ESG dimension denomination to justify the denomination and report on its performance (results or impact).
- SFC also published the Technical Document on ESG and Climate Disclosure in early 2021, which was the input for the ESG and climate disclosure, as well as the input for the mandatory ESG and climate disclosure instructions, issued under External Circular 031-2021.¹

Sub-pillar 2: Regulatory and Industry Association Actions

- Colombia's sustainable finance framework is supported with implementation guidance and technical tools, including: 1) capacity building, 2) monitoring tool (SFC's biennial survey on climate risk and opportunities to collect information on ESG frameworks). Asobancaria also collects information on a yearly basis and publishes the results in its Sustainability Report.

- The implementation of the framework is regularly monitored by Asobancaria, supported by its data collection approach. Asobancaria collects data from banks and capital markets through the survey on climate risks and opportunities on a yearly basis. It also collects information on the ESG framework as part of the implementation of its Green Protocol.
- SFC launched its Sustainable Finance website to share its sustainability and climate change agenda. The initiative aims to promote green finance and the management of environmental and climate risk.
- In April 2021, the SFC created the Sustainable Finance Working Group to implement SFC's sustainability strategy, including a sustainable finance taxonomy, ESG integration by financial institutions, climate risk, and capacity building.
- In June 2021, the Colombia Stock Exchange issued the Guide for the Preparation of ESG Reports for Issuers in Colombia, which elaborates on the content and details of the ESG reports for issuers in Colombia.

Sub-pillar 3: Expectations for FI Actions

- The Green Protocol and General Guidelines for the Implementation of E&S Risk Analysis require FIs to develop policies and procedures to manage ESG risks and performance, undertake regular review and monitoring of ESG risks, and report ESG performance publicly.
- 72 percent of banks in Colombia have established internal ESG governance structures and/or policies. About 90 percent of banks reported their ESG performance/activities according to the SFC survey on climate-related risks and opportunities.

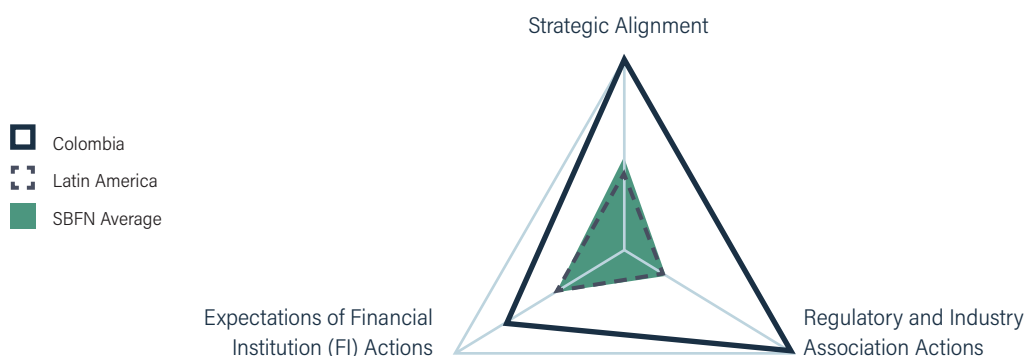
¹ This document was issued in 2022, after the report data collection and analysis cut-off date of July 31, 2021. Therefore, it was not included in the benchmarking process nor the consideration of the overall and pillar-level progression matrix mapping.



Pillar 2: Climate Risk Management

Pillar Progress: Developing

Colombia is in the **"Developing" sub-stage of the "Implementation" stage** of the Climate Risk Management Pillar. There is a framework for climate risk management and significant research, guidance, and capacity building efforts are underway by regulators, industry associations, and FIs to develop a deeper understanding of physical and transition risks of climate change, in addition to climate risk assessment and management approaches. There are ongoing regulator-industry working groups to raise awareness and build capacity of FIs on the new expectations for climate risk management, including the development of regulatory requirements and guidance.



Sub-pillar 1: Strategic Alignment

- Addressing climate change risks is a national priority as indicated in Colombia's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies, including the National Climate Change Policy (2017). In the financial sector, the Central Bank of Colombia, the SFC, Asobancaria, and the Colombian Stock Exchange have developed research, regulatory requirements and guidance, principles, and guidelines for the management of climate risk.

Sub-pillar 2: Regulatory and Industry Association Actions

- In 2019, the SFC established a Sustainable Finance Group (Resolucion 0442) and published Climate Risks and Opportunities Survey, which provides a framework for SFC's approach to climate risk management in the Colombian financial sector and evaluates the readiness of FIs to address climate risk.
- The SFC issued regulatory guidance for the pension sector that includes best practices for the management of ESG and climate-related risk in the investment process. In 2021, SFC was planning to issue regulatory guidance on governance and climate risk management and climate-related financial risk disclosure for FIs, which will form the basis for future financial sector supervision activities.
- Asobancaria launched the Green Protocol in 2012, and the General Guidelines for the Implementation of Environmental and Social Risk Analysis in 2017. The Protocol and Guidelines reference climate risk as a

related component of overall ESG risk management.

- In 2020, the Colombian Stock Exchange released the Guide of the Preparation of ESG Reports for Issuers, which references international climate risk disclosure practices, including TCFD.
- In terms of awareness raising, research, and tools, in 2020, the Central Bank of Colombia published Climate Change: Policies to Manage Its Macroeconomic and Financial Effects, a report on climate physical and transition risks and their impacts on the Colombian economy. In 2020, SFC partnered with the World Bank to develop a climate vulnerability analysis for the banking sector (Not-So-Magical Realism: A Climate Stress Test of the Colombian Banking Sector). The SFC also partnered with the Two Degree Investing Initiative to conduct scenario analysis and stress testing in the pension sector, and the National Planning Department is researching transition risk and decarbonization strategies. Both SFC and the Central Bank of Colombia are members of the Network for Greening the Financial System (NGFS).
- As part of future progress by Colombia, recommended areas of focus for regulatory and industry association actions include continued capacity building and development of technical guidance (for example, climate scenario analysis and stress testing) and issuance of supervisory expectations for FIs for managing the physical and transition risks of climate change and related financial impacts.

Sub-pillar 3: Expectations for FI Actions

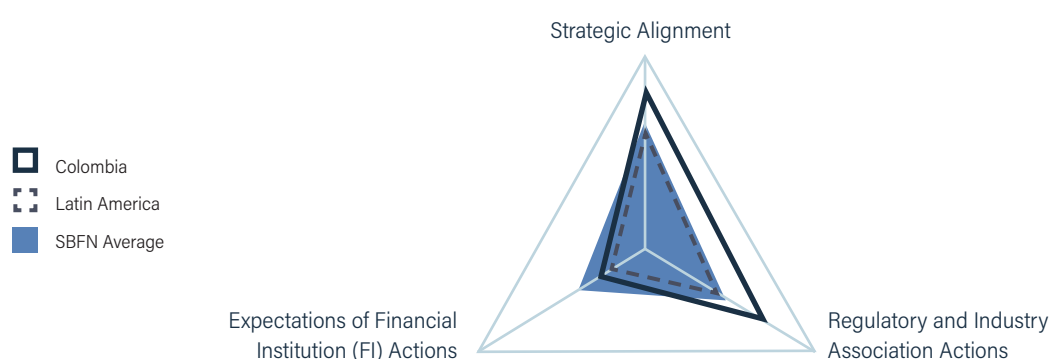
- The SFC regulatory guidelines include ESG and climate risks for the pension sector; the forthcoming guidance on climate risk management and climate-related financial risk disclosure for FIs will provide guidance on the key elements of strategy, governance, risk management, and disclosure of climate risks, in line with international practices such as TFCF. The SFC, through its biennial survey on climate risks and opportunities (the latest of which was in 2021), monitors and collects data from supervised FIs regarding their current approaches to identifying, assessing, and managing climate-related risks.
- In 2021, the Green Protocol is being updated to include more fundamental elements of climate risk management and financial impacts, and Asobancaria is planning to undertake training and capacity building for FIs.



Pillar 3: Financing Sustainability

Pillar Progress: Consolidating

Colombia is in the **"Consolidating" sub-stage of the "Maturing" stage** of the Financing Sustainability Pillar. Its national sustainable framework is well aligned with international good practice expectations across all three sub-pillars. A comprehensive national initiative is in place, aimed at greening the entire financial system. The framework extends beyond banking to include at least one additional part of the financial ecosystem (for example, capital markets). Also, consistent and comparable data is being collected by the regulator or banking association about the implementation of sustainable finance practices by banks and FIs, including measurement of benefits. In 2020, SFC published the Green Bond Guide, which include recommendations related to project selection and evaluation, fund management, and information disclosure. The SFC also issued the External Circular 028 of 2020, which formally incorporates the definition of a Green Bond, making Colombia the first country in the region to have an exclusive regulatory framework for this type of thematic bond. SFC also published an External Circular on Sustainability-Linked Bonds for public consultation. In March 2022, SFC, with the support of IFC, the World Bank, SBFN, launched the first phase of the Colombian Green Taxonomy.²



Sub-pillar 1: Strategic Alignment

- Colombia's national framework for financing sustainability covers both the banking sector and capital markets. Asobancaria's Green Protocol mainly focuses on the banking sector and the Colombia Stock Exchange and SFC's Green Bond Guidance and Regulation address capital markets.
- The financial sector's approach to promoting financial flows into green and sustainable projects and sectors is in alignment with international good practices and standards, such as the UN Sustainable Development Goals, the International Capital Markets Association's Green Bond Principles and the EU Green Bond Standards.
- The financial sector's approach to financing sustainability is also aligned with its national goals and strategies, such as the intended National Determined Contributions (NDC). It also identifies key stakeholders and promotes engagement.

Sub-pillar 2: Regulatory and Industry Association Actions

- Colombia's framework on financing sustainability asks financial sector regulators and associations to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects.
- SFC's 2020 Green Bond Guide includes samples for green sectors/projects, provides guidelines for the issuance of green, social, or sustainability bonds, and requires external party verification to ensure the credibility of green bonds issued. SFC is also in the process of developing green credit guidance.
- SFC routinely collects and publishes data from FIs about the allocation of capital to green, social, sustainability assets, projects, or sectors.
- The SFC is working with IFC, World Bank, and other international partners to develop its national green taxonomy to create a common language and understanding of green financial instruments, such as green bonds and investment portfolios. In March 2022, SFC launched the first phase of the Circular Externa 005 de 2002 - the Colombia Green Taxonomy.

² This document was issued in March 2022, after the report data collection and analysis cut-off date of July 31, 2021. Therefore, it was not included in the benchmarking process nor the consideration of the overall and pillar-level progression matrix mapping.

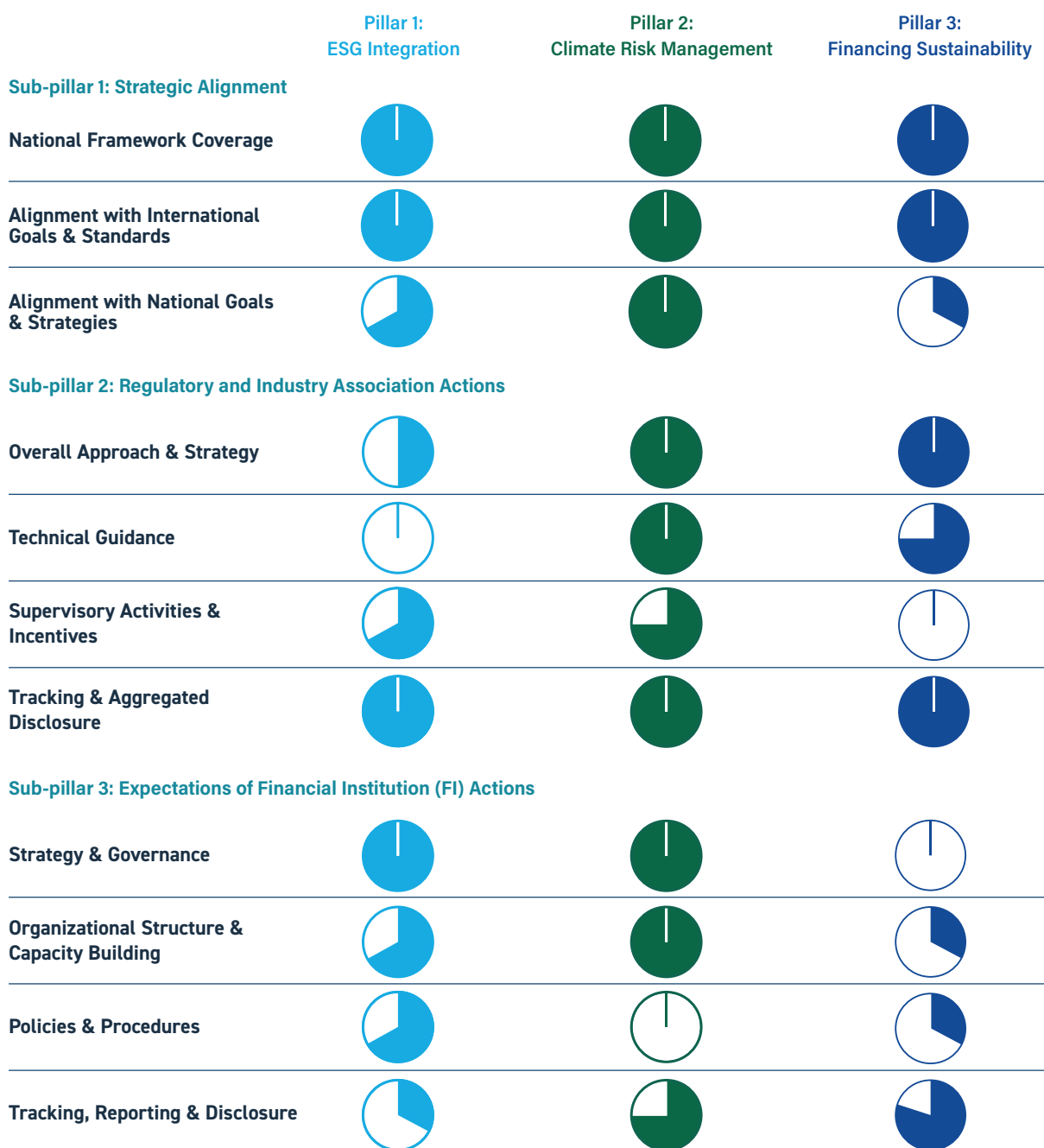
- SFC adopts the Green Taxonomy of Colombia with the purpose of providing the necessary information to determine the environmental benefits of an asset or economic activity, increase market transparency, and mobilize resources towards sustainable sectors. Green Taxonomy is understood as the classification system for economic activities and assets with substantial contributions to the achievement of environmental objectives. The Supervised Entities may use the green taxonomy to:
 - i) identify financing and investment opportunities;
 - ii) measure portfolio and portfolio alignment with green assets;
 - iii) structure green products and services or solutions; and
 - iv) strengthen disclosure and transparency practices.

Sub-pillar 3: Expectations for FI Actions

- The SFC Green Bond Guide asks green bond issuers to appoint an independent external reviewer to confirm that the issuers' internal framework meets the requirements of the recognized national framework and regulations or aligns to international standards.
- The SFC also asks issuers to publish annual updates on the performance and impacts of sustainability instruments in compliance with relevant national and/or international standards. Colombia's Green Bond Guidance and Regulation also asks issuers to obtain and disclose independent reviews of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through sustainability instruments, and to report to the SFC on allocation and outcomes of green and sustainability loans. Issuers are further asked to publicly disclose their green and sustainability-focused finance activities and positive outcomes or impacts.

3. Progress by three sub-pillars and 11 indicators

Figure 4: Overview of Colombia'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



* Not a policy document, but a key research, data disclosure, and stakeholder engagement material/publication.

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.



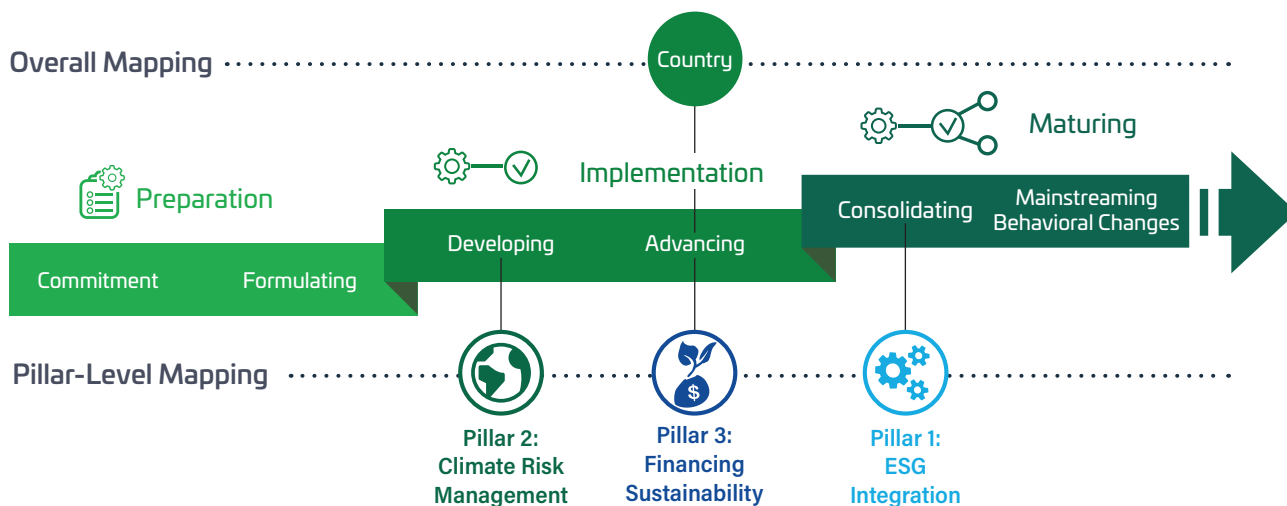
Financing Sustainability refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance,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

	Pillar 1: ESG Integration	Pillar 2: Climate Risk Management	Pillar 3: Financing Sustainability
Sub-pillar 1: Strategic Alignment	<ul style="list-style-type: none"> National framework Alignment with international goals and standards Alignment with national goals and strategies 		
Sub-pillar 2: Regulatory and Industry Association Actions	<ul style="list-style-type: none"> Overall approach and strategy Technical guidance Supervisory activities and incentives Tracking and aggregated disclosure 		
Sub-pillar 3: Expectations of Financial Institution (FI) Actions	<ul style="list-style-type: none"> Strategy and governance Organizational structure and capacity Policies and procedures Tracking, reporting, and disclosure 		

3. Sector data and case studies

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



SBFN on-line case study catalogue
Coming soon

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

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

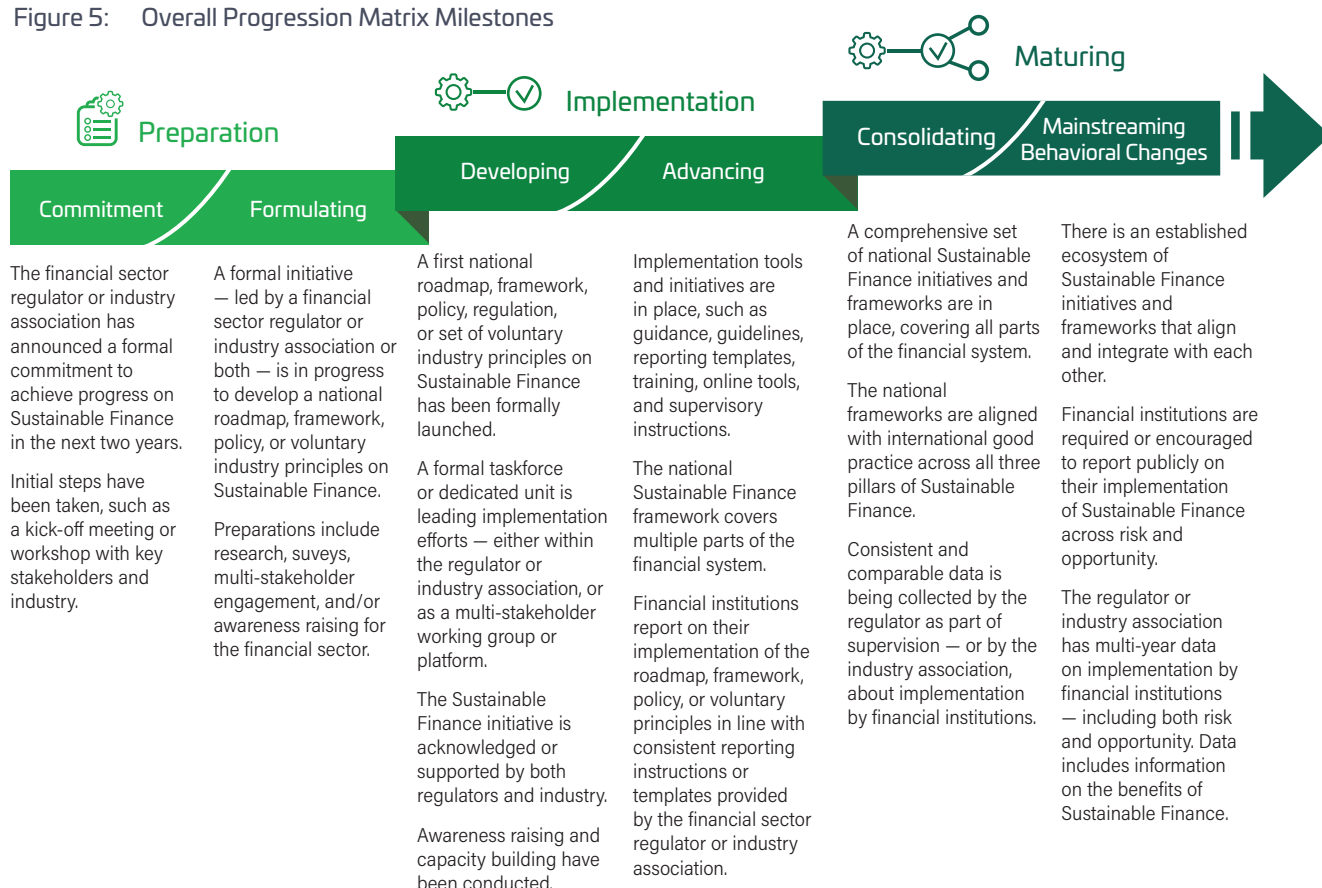


Figure 6: Progression Matrix Milestones – Pillar 1: ESG Integration

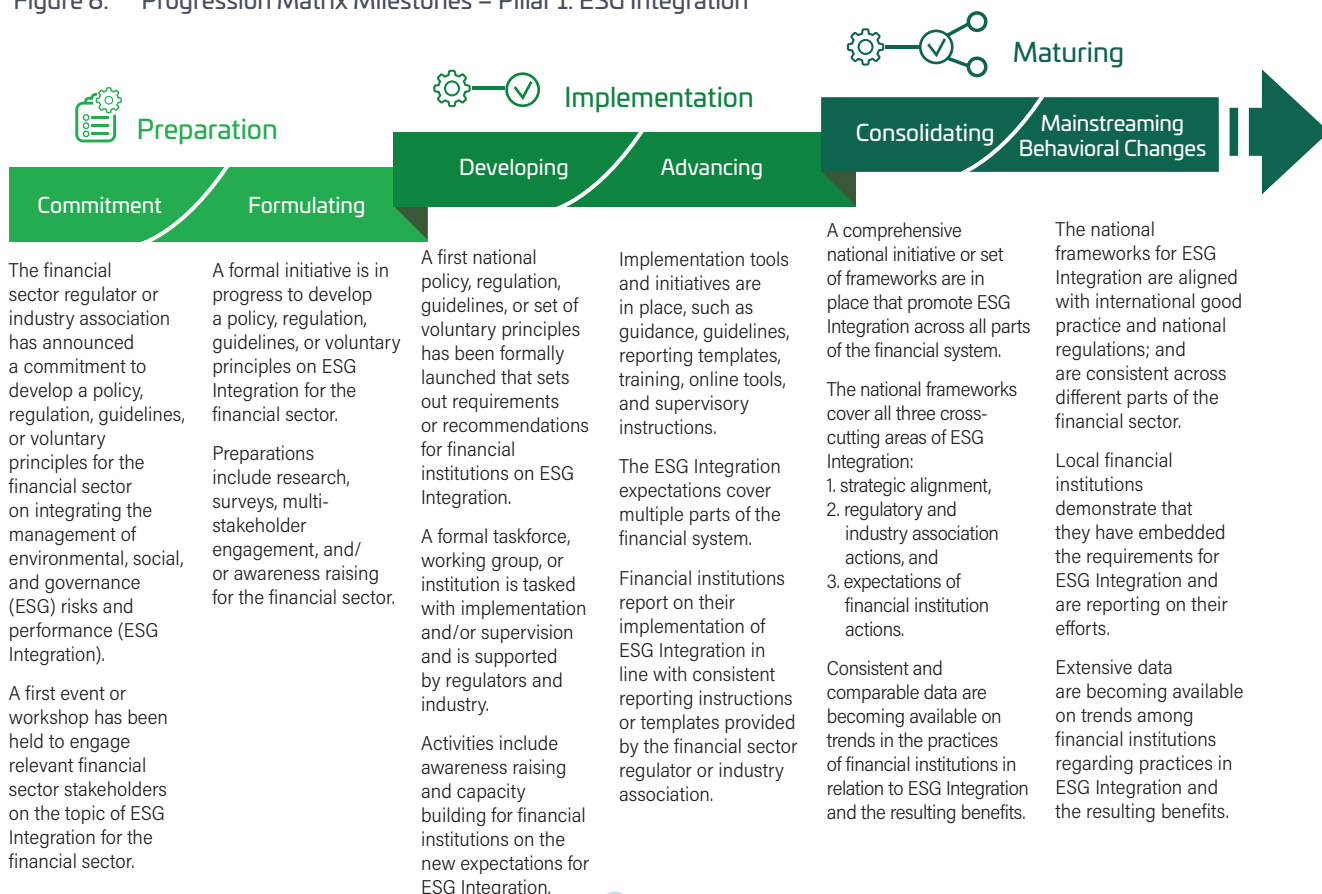


Figure 7: Progression Matrix Milestones – Pillar 2: Climate Risk Management

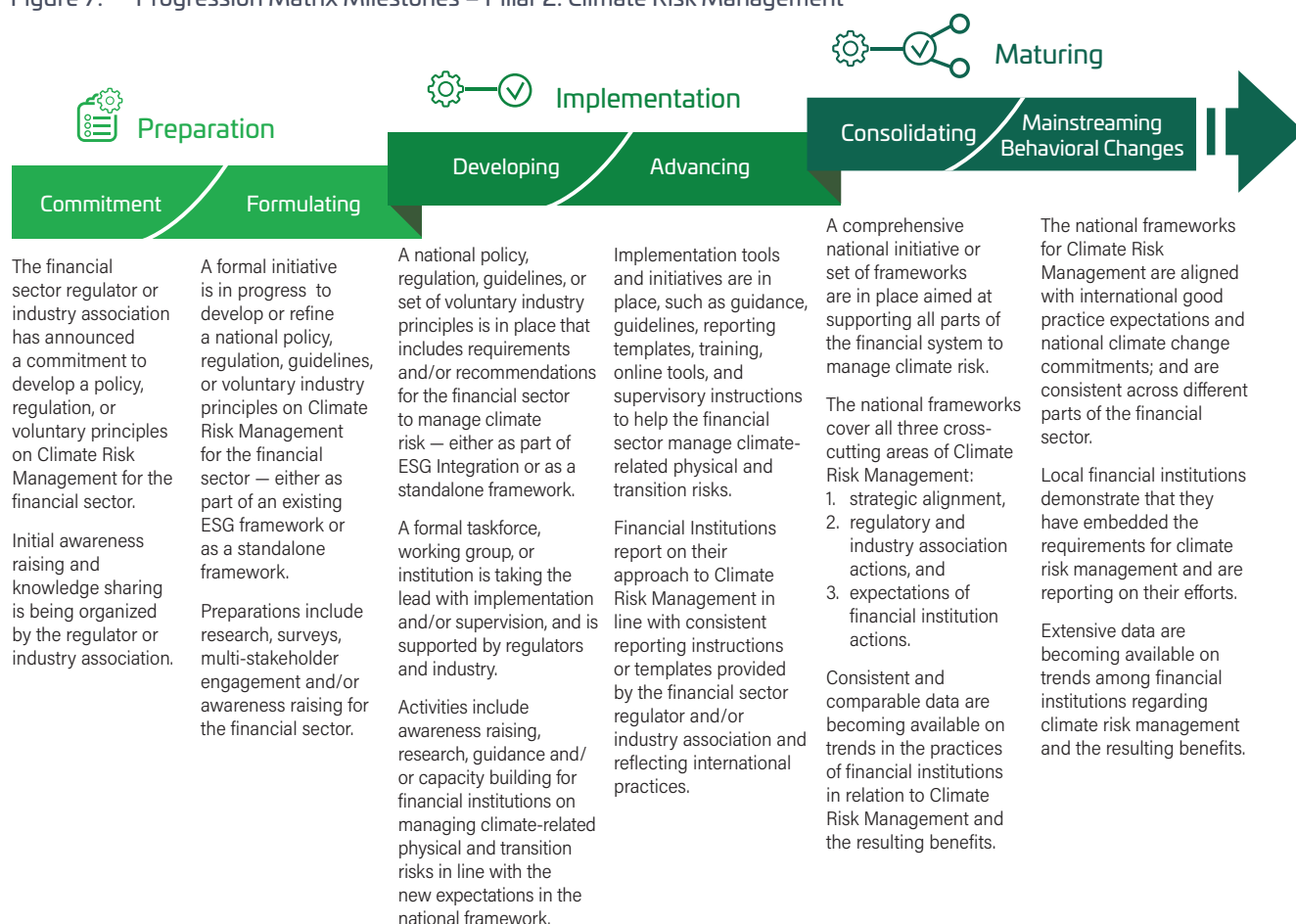
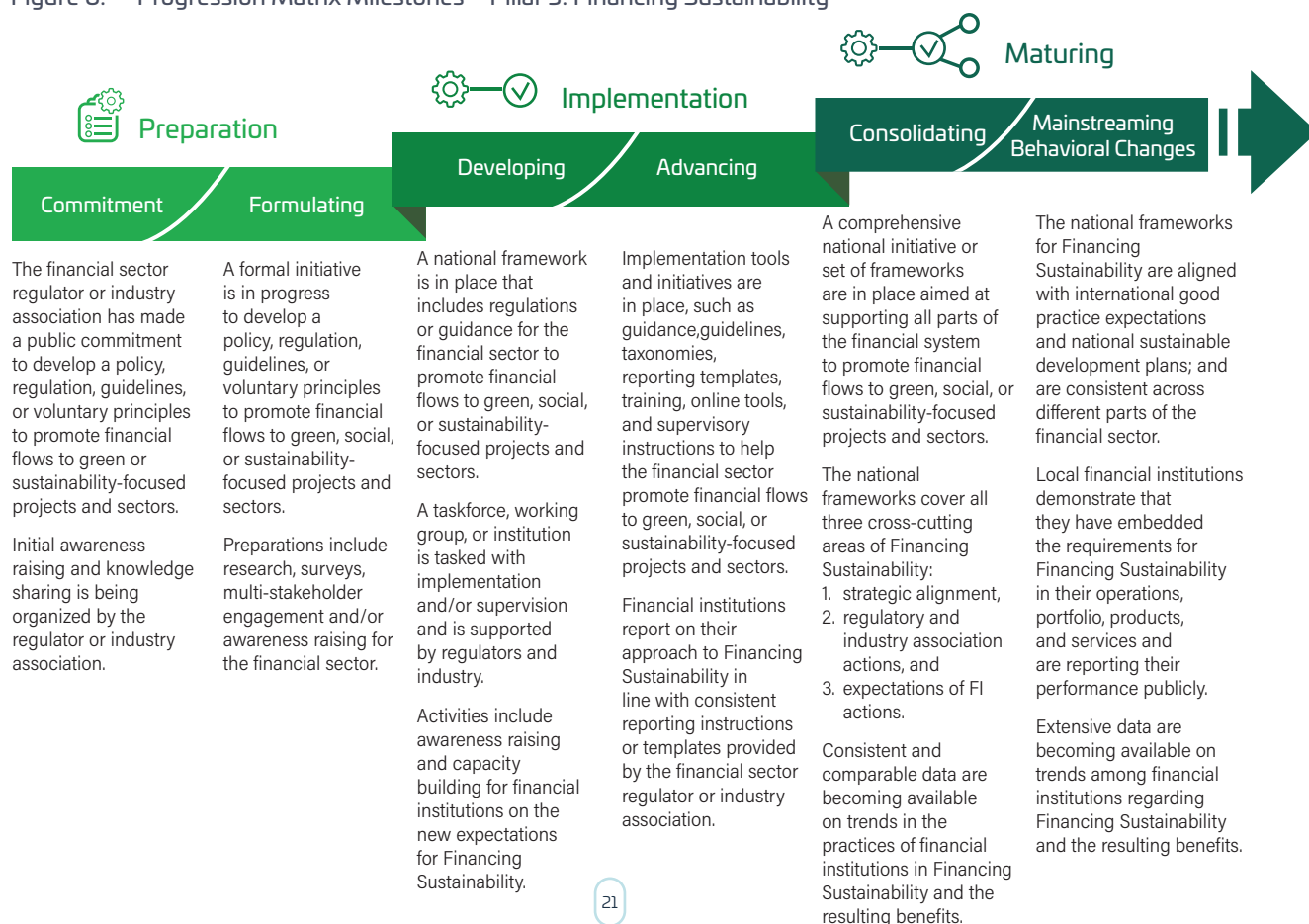


Figure 8: Progression Matrix Milestones – Pillar 3: Financing Sustainability



ACCESS THE SBFN GLOBAL AND
COUNTRY PROGRESS REPORTS AT:
WWW.SBFNETWORK.ORG



Sustainable
Banking and
Finance
Network



IFC | International
Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities