Accelerating Sustainable Finance Together

Global Progress Report of the Sustainable Banking and Finance Network

Evidence of Policy Innovations and Market Actions across 43 Emerging Markets

October 2021

EXECUTIVE SUMMARY

Sustainable Banking and Finance Network

IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

Key data – progress since last report

SBFN membership

43 Member countries ↑13%

63 Member institutions ↑19%

33 Countries which launched policies/principles ↑50%

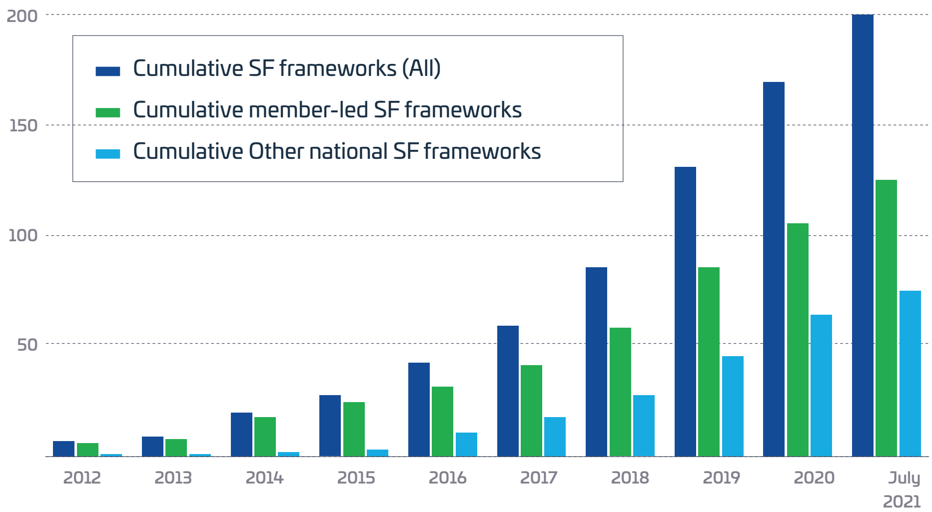
$ 43 Trillion (86%) banking assets in emerging markets represented by SBFN membership

Acceleration of Sustainable Framework Issuance in SBFN Countries

Total SF frameworks **203**

Member-led SF frameworks **127**

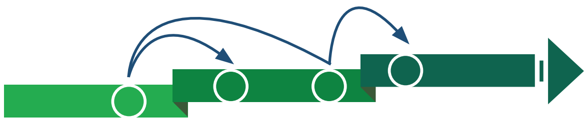
Other national SF-related frameworks **76**



Overall highlights

22 countries launched additional policies in this cycle to strengthen their existing sustainable finance frameworks

11 countries introduced their first national sustainable finance frameworks



21 countries moved forward in the Overall Progression Matrix

6 countries, including 1 new member country, made rapid progress, leapfrogging 2 sub-stages

Pillar Benchmarking highlights

Pillar 1: ESG Integration

32 countries (74%) have launched ESG frameworks, of which the majority have reporting requirements and highlight the governance ("G") of E&S performance.

15 countries (35%) have established systematic ESG data collection to track implementation.

Pillar 2: Climate Risk Management

28 countries (65%) are at Formulating sub-stage for climate risk, leveraging ESG frameworks to begin integrating physical and transition climate risks.

4 countries (10%) are at Developing sub-stage, leading the way with robust policy actions for climate risk.

Pillar 3: Financing Sustainability

24 countries (56%) have launched guidelines for green, social and/ or sustainability-focused financial instruments, such as loans or bonds.

6 countries (14%) have published detailed taxonomies and catalogues of eligible green or sustainability-focused projects, sectors, and activities.

1. Executive summary

Significant investment is required to reach the Sustainable Development Goals (SDGs) by 2030. The Organization for Economic Co-operation and Development (OECD) estimates $2.5 trillion in financing needs in developing countries to achieve the SDGs, with an additional projected shortfall of $1.7 trillion as a result of COVID-19. Aligning just 1.1 percent of global finance with the SDGs could fill that gap.

While the need is great, the opportunities are also significant. IFC estimates over $23 trillion in investment opportunities in green and climate-related sectors and activities than can help achieve national goals aligned with the Paris Agreement and accelerate the global transition to a low-carbon economy.[1] Most of this capital will come from the private sector, including banks, institutional investors, and capital markets.

Consequently, there is a groundswell of interest in sustainable finance worldwide as a means to activate the financial sector in pursuit of sustainable development objectives. With this mind, a growing number of regulators, supervisors, industry associations, and financial institutions (FIs) have adopted policies, regulations, and practices to

- **reduce** and manage environmental, social, and governance (ESG) risks from financial sector activities — including climate-related risk, and
- **encourage** the flow of capital to assets, projects, sectors, and businesses that have environmental, climate, and social benefits.

As of October 2021, the IFC-supported Sustainable Banking and Finance Network (SBFN) — formerly the Sustainable Banking Network — represents 63 institutions from 43 countries, covering more than $43 trillion (86 percent) of the total banking assets in emerging markets.[2]

At the suggestion of members, and to better reflect member diversity, the Network changed its name in September 2021. The new name reflects growing collaboration across different parts of the financial sector, supported by SBFN's unique convening role. Members now include financial sector regulators, central banks, banking associations, ministries of finance, ministries of environment, capital market authorities, and regional bodies representing banking associations and regulators.

Members are committed to advancing sustainable finance and achieving measurable change. To this end, SBFN's Global Progress Report is the most comprehensive assessment and benchmarking of national approaches to promote sustainable finance in emerging markets. It applies a Measurement Framework that has been developed and refined with members since 2016 under the leadership of SBFN's Measurement Working Group.

The Measurement Framework continues to evolve over time, as do members' sustainable finance journeys. It captures market dynamics and collective member insights. The updated 2021 Framework is informed by the latest emerging best practices and relevant global developments. Key themes this year include:

- **Deepening of national ESG risk management frameworks** and implementation by financial institutions.
- **COVID-19** and the response by many countries to leverage sustainable finance as part of "building back better".
- Sustainable finance moving **beyond banking** to include capital markets, pensions, insurance, and asset management.
- The **growing need for data to understand ESG risk as well as opportunity,** which is driving demand for improved disclosure by all parts of the financial sector, including the development of definitions and taxonomies.
- The ever-increasing urgency of **climate change** and the management of **climate risk.**
- The popularity of **green and climate bonds**, which has led to **expansion into social and sustainability bonds**, as well as broadening from bonds to loans and other financial instruments to mobilize capital for sustainable development objectives.

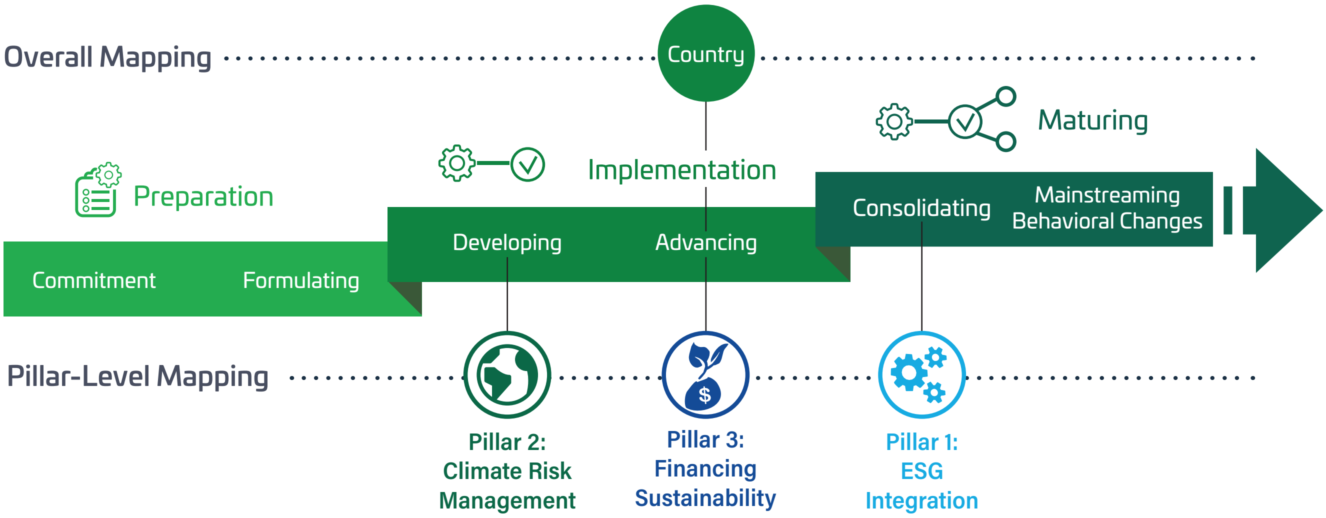
1 IFC, "Climate Investment Opportunities in Emerging Markets: An IFC Analysis", 2016.
2 Data source: International Monetary Fund, Financial Soundness Indicators, 2017. http://data.imf.org/?sk=51B096FA-2CD2-40C2-8D09-0699CC1764DA

Figure 1: Overview of the 2021 SBFN Measurement Framework

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	• National framework • Alignment with international goals and standards • Alignment with national goals and strategies		
Sub-pillar 2: Regulatory and Industry Association Actions	• Overall approach and strategy • Technical guidance • Supervisory activities and incentives • Tracking and aggregated disclosure		
Sub-pillar 3: Expectations of Financial Institution (FI) Actions	• 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
To be launched November 2021

The 2021 Global Progress Report is supported by over 30 Country Progress Reports and helps members to

- **assess their progress** in comparison with peers, and
- **identify proven strategies** to promote sustainable finance in their countries based on their stage of development.

As illustrated in the Figure 1 on the previous page, the **Measurement Framework** consists of three complementary components.

1. **An Overall Progression Matrix and three thematic matrixes** that show the milestones countries have achieved in developing national sustainable finance frameworks.
2. **Pillar Benchmarking across three thematic pillars** that compare the clarity and comprehensiveness of national sustainable finance frameworks and their alignment to national priorities and international good practice as identified and endorsed by members.
3. **Aggregated national sustainable finance data and case studies** to illustrate interaction between national frameworks and behavior change by financial institutions.

The 2021 report is based on detailed country-level data shared by SBFN members supported by documentation. Extensive verification was carried out by the SBN Secretariat, supported by third-party service providers Rothko and Intellidex. This included in-depth interviews with over 40 countries, as well as document review and data analysis.

This year's report finds that **member countries are accelerating progress across all dimensions of the Measurement Framework** — evidence that the sustainable finance landscape continues to deepen and expand.

- Since July 2019, the last reporting period, 11 additional countries introduced their **first national enabling frameworks for sustainable finance**, bringing the total number of countries with frameworks to 33.
- 32 countries (74 percent of member countries) have launched national frameworks that set expectations for the management of **ESG risk and performance by financial institutions**, of which the majority have reporting requirements and highlight the governance ("G") of environmental and social performance.

30 countries (70 percent) are in the Implementation stage in the Overall Progression Matrix.

- Recognizing that climate risk management is a new issue for most members, 28 countries (65 percent) are at the Formulating stage and leveraging or refining existing ESG frameworks **to begin integrating the assessment and management of physical and transition climate risks.**
- 24 countries (56 percent) have launched guidelines for green, social, and/or sustainability-focused financial instruments, such as loans or bonds.
- 21 countries (49 percent) have **moved to a new stage or sub-stage** in the Overall Progression Matrix and six countries made rapid progress, leapfrogging two sub-stages.

These trends demonstrate significant action to deepen national sustainable finance frameworks. As noted in Figure 2, 30 SBFN countries (70 percent) are in the Implementation stage in the Overall Progression Matrix, having introduced their first sustainable finance frameworks. Nineteen (44 percent) are in the Developing sub-stage, and are focused on developing templates, tools, guidelines, additional frameworks, and capacity for both financial institutions and regulators. Eleven are Advancing, having introduced reporting requirements and collecting comparable data on implementation by financial institutions. Three are in the Consolidating sub-stage, under the Maturing stage. This means they have comprehensive national sustainable finance frameworks that cover all parts of the financial sector, and are collecting robust year-on-year data.

There is a higher degree of collaboration between policy makers, regulators, banking associations, and financial sector institutions than in previous years. **Thirty-one countries have some form of cooperation between government agencies or between the regulator and industry association to promote sustainable finance.** Examples include Morocco's Capital Market Authority in partnership with Bank Al-Maghrib and multiple other agencies to develop the Roadmap for Aligning the Moroccan Financial Sector with Sustainable Development; China Banking and Insurance Regulatory Commission, People's Bank of China, and multiple other agencies; Nigeria's Financial Services Regulation Coordinating Committee, which developed the Nigeria Sustainable Finance Principles; and the Banking Association South Africa together with South Africa's National Treasury, Prudential Authority, Financial Sector Conduct Authority, and the Johannesburg Stock Exchange. **Ten countries report inter-agency data sharing is in place on aspects of sustainable finance.**

Additional framework elements and implementation tools are being introduced at a rapid pace. To date, 33 member countries have launched over 200 framework elements — including national roadmaps, policies, regulations, voluntary principles, guidelines, reporting templates, scorecards, tools, and research —setting out national good practice expectations for sustainable finance. SBFN research has identified 203 framework elements as of October 2021, of which 127 are directly initiated or supported by SBFN members. Amid the global pandemic, member countries not only maintained their momentum, but in many cases accelerated work to promote sustainable finance as a tool for growth and resilience.

Clear reporting requirements for financial institutions and collection of comparable data are the key milestones for countries in the Advancing and Consolidating sub-stages. Ten countries —Argentina, Bangladesh, China, Colombia, Indonesia, Kenya, Mexico, Mongolia, Turkey, and Vietnam — provided some degree of aggregate quantitative data on ESG performance and/or sustainable finance flows in response to this year's exploration of data availability. This is a significant improvement from 2019 when only China and Indonesia reported such data. The countries with data included all three countries in the Consolidating sub-stage – which had data across all three pillars — as well as six in the Advancing sub-stage, with data mainly across ESG integration and Financing Sustainability, and one in the Developing stage, which focused on ESG Integration. All 10 countries provided data on the implementation of ESG framework requirements by financial institutions. Seven countries provided data on capital allocation to green, social, and sustainability categories for loans or bonds. Five countries provided data on the extent to which banks are addressing climate risk.

44 percent of countries are in the Developing sub-stage, and are focused on developing templates, tools, guidelines, additional frameworks, and capacity for both financial institutions and regulators.

The most commonly reported data include

- Banking assets covered by ESG integration requirements in the national sustainable finance framework;
- Banks that have established an internal ESG governance structure and/or policies; and
- Banks that report their ESG activities/performance regularly to the regulator/industry association.

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.

Figure 2: Overall progress of SBFN countries in developing national sustainable finance frameworks (up to the end of July 2021)*

*Countries within each sub-stage are listed in alphabetical order.

Benchmarking of countries across three thematic pillars

The **Pillar Benchmarking component** comprises three thematic pillars — ESG Integration, Climate Risk Management, and Financing Sustainability — with three cross-cutting sub-pillars, eleven cross-cutting indicators, and 75 underlying datapoints. The cross-cutting sub-pillars and indicators reflect the similar strategies that are used to design and implement frameworks across the three pillars.

As discussed in the chapters for each pillar, this granular benchmarking helps countries to determine which national framework elements are being covered most often by their peers, and to benefit from the experiences of other SBFN members.

As a foundational focus of most members, performance in the **ESG Integration Pillar** is most advanced. This pillar evaluates regulatory guidance, supervision strategies, and voluntary banking sector approaches that set expectations and provide guidance for financial institutions to manage ESG risks in operations, transactions, and portfolios.

The **Climate Risk Management Pillar** is a new addition to the SBFN measurement framework and has been designed to help members develop a roadmap on these new practices. The ESG integration pillar already captures advanced work being done by members on ESG risk management more broadly, which includes climate as an environmental issue. One of the interesting findings in this year's report is that most SBFN countries have included climate risk management into ESG frameworks in some way in recognition of the urgency of climate change. However, in many cases, members self-reported that they were still in the formulating stage when it comes to key elements of current climate risk management good practice, such as implementation of stress testing, use of scenarios, research on financial sector risk, and development of disclosure aligned with the Task Force on Climate-related Financial Disclosures.

Coverage in the **Financing Sustainability Pillar** reflects the strong interest and innovation in emerging markets to stimulate capital flows to sectors and activities that have environmental benefits. Frameworks assessed under this pillar confirm the importance of regulatory and voluntary efforts to provide definitions, guidance, taxonomies, standards, monitoring, and incentives for introducing new, credible products and services that support climate, green economy, and social goals.

Powerful findings are also emerging through correlations across the SBFN thematic pillars:

- Countries that actively supervise implementation by financial institutions also tend to focus on data and disclosure.
- There is more activity in this reporting period, including cross-agency collaboration among regulators, to build the capacity of FIs on climate risk management, with an emphasis on disclosure. This indicates that both regulators and FIs are learning to manage this topic together as data emerges.
- The role of governing bodies is recognized more strongly in relation to climate risk management and financing sustainability.
- When ESG frameworks are strongly aligned with international sustainable development frameworks, there is more likely to be a national framework in place to help banks manage climate risks.
- Countries with inter-agency data sharing and data collection related to ESG integration are more likely to also have this type of data-sharing related to capital flows going to sustainable activities and efforts to encourage FIs to increase green lending and investment.

Cross-cutting themes in country-level sustainable finance initiatives

The following themes emerged from the detailed analysis of data across the three pillars of the SBFN measurement framework.

SBFN countries are consolidating and deepening their national enabling frameworks for sustainable finance across all three pillars, with an ESG integration being the pillar where most countries are advancing.

The majority of members did not slow their sustainable finance efforts during the first waves of the COVID-19 pandemic in 2020. Even though all countries are severely impacted, many have leveraged sustainability-focused finance as part of their recovery plans. During the assessment period, 11 countries introduced their first national sustainable finance frameworks, compared with seven in the 2019 assessment period. This represents a 57 percent increase in the rate of first frameworks being launched. This assessment period is from July 2019 to July 2021, during which 34 countries strengthened their national framework compared with 10 in 2019. This included i) issuance of new or amended policies, principles, guidelines, and tools, and ii) conducting sustainable finance research and publishing findings and recommendations.

A typical sequence has emerged in the development of national sustainable finance initiatives. For most countries, the journey to develop a first policy, regulation, roadmap, or set of voluntary principles can take several years of consultation, research, and preparation. This phase is critical as it builds sector buy-in to a collective sustainable finance vision and ensures the framework is aligned with local priorities and international trends. The first framework — whether focused on banking, capital markets, or more broadly — will often include i) a definition of sustainable finance, ii) reference to international best practice, and iii) the importance of sustainable finance to local priorities. Once the first framework is in place, it is much easier to add more components.

Most countries start with a focus on improved governance, management, and disclosure of environmental and social risks in the financial sector. To date, 32 countries (74 percent) have launched ESG-focused frameworks and most countries are in the Advancing category for ESG Integration, with consistent data starting to emerge about implementation by financial institutions. This is a significant achievement for the collective SBFN community. Governance (the "G" in ESG) of environmental and social performance is becoming more prominent in many frameworks, with some countries embedding environmental and social risk management into corporate governance codes. At least six countries — Georgia, Ghana, Iraq, Mexico, South Africa, and Vietnam — include ESG expectations in their corporate governance codes. This trend is expected to grow.

Once this foundation is in place, **opportunities emerge for green, social, and sustainability-focused financial products**. Additional guidelines can be introduced to support this innovation. Over half (53 percent) of member countries have published guidelines for at least one green or sustainability-focused financial instrument, with bonds among the leading products. Many countries start with green bond guidelines and expand to include social and sustainability guidelines. The ASEAN Capital Markets Forum (ACMF) achieved this at a regional level in 2018 with a high degree of consensus among members. In March 2021, Morocco's Capital Market Authority added gender bond guidelines to its suite of green, social, and sustainability bond guidelines. The SDGs and associated targets have helped guide this innovation. Additional innovations include blue bonds to protect oceans, and biodiversity-focused instruments.

The taxonomy trend is supporting this expansion. Sixteen SBFN countries have introduced or are developing green or sustainability-focused taxonomies to provide much-needed clarity on eligible activities, sectors, and assets. Taxonomies have cross-cutting benefits for ESG risk management, disclosure, and guiding capital to sustainable activities. Climate mitigation and adaptation have been the focus of many countries' first taxonomies. In line with trends from China and the European Union, six countries include detailed criteria and performance requirements for eligible assets.

32 countries (74% of SBFN countries) have launched ESG-focused frameworks

Underlying principles introduced by the European Union, such as "Do No Significant Harm" and protection of social safeguards, are influencing new taxonomy developments in SBFN countries. Efforts by the European Union and China to support a common approach to national sustainable finance taxonomies have been taken up by the G20 Sustainable Finance Working Group and will drive greater alignment in the underlying principles of taxonomies and the data reported by issuers and investors across different jurisdictions.

Social taxonomies and principles to define transition finance are quickly following. Georgia is developing a social taxonomy alongside its green taxonomy. South Africa has identified transition finance as a priority to enable a low-carbon trajectory while ensuring a "just transition" in which employment, financial inclusion, and inequality are addressed alongside environmental objectives. Recent guidance from the International Capital Market Association provides clarity on what constitutes a credible transition plan in line with the Paris Agreement.

Climate risk is a priority focus that can be addressed through new policies, guidelines and tools, or by enriching existing ESG-focused frameworks. The latest projections[3] from the Intergovernmental Panel on Climate Change (IPCC) indicate the world will reach or exceed 1.5 degrees Celsius (2.7 degrees Fahrenheit) of warming within the next two decades, which is the limit for preventing the worst climate impacts. Drastic and immediate actions are needed to avert the stark projections under a high-emissions scenario.

3 IPCC, 2021, "Climate Change 2021 The Physical Science Basis: Working Group I contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change", August 2021.

Emerging markets are far more vulnerable to rising global temperatures and suffer significantly from the physical impacts of climate change, which can have direct effects on food security and financial stability. Climate-related physical risks from natural disasters are three times more frequent today than they were in the 1970s and 1980s, and global warming is becoming increasingly evident in sectors such as agriculture, a key sector for low-income countries. With more than 120 countries pledging to reach net-zero greenhouse gas emission targets through the United Nations Climate Ambition Alliance, the resulting changes in policies, regulations, and market preferences to prioritize low carbon activities will add transition risks for financial institutions and their clients.

Recognizing this urgency, four member countries (~10 percent) are at the Developing sub-stage for climate risk **and undertaking specific actions by the regulator or industry association to help the financial sector address climate risk**, with Brazil, Colombia, Morocco, and China leading the way.

Most SBFN members are at the early stage of addressing climate risks. Twenty-eight countries (65 percent) at the Formulating sub-stage, leveraging or refining ESG frameworks to integrate assessment and management of physical and transition climate risks, and 11 countries (25 percent) are at the Commitment stage, conducting research and engaging with stakeholders on this topic. Most regulators and central banks are building internal capacity and developing practices and guidance to understand and manage climate-related market and systemic risks. There is recognized urgency to accelerate actions to manage climate risks and avoid the potential for stranded assets, business disruption, and reduced financial valuations.

Member experiences confirm that, when frameworks are already in place to manage ESG risk in the financial sector, climate risks can be integrated into these frameworks and benefit from existing risk management systems. However, given the unique[4] and complex nature of climate-related risks and financial impacts, specific skills, capacity and risk management approaches are critically important. These efforts are adding to the risk management toolbox for managing ESG performance. They involve new tools and initiatives such as use of climate scenarios, vulnerability assessments and stress testing, and improved governance and disclosure requirements.

Notably, some SBFN countries have already embedded elements of climate risk in their ESG frameworks and reporting requirements. For example, approaches in Brazil, Colombia, China, Bangladesh, Morocco, the Philippines, Thailand, and Turkey reflect the following elements of climate risk management incorporated into ESG frameworks and related implementation:

- Screening for climate-related physical risks (e.g., flood, sea level rise) as part of credit and operational risk management and opportunities and costs to adapt and build resilience.
- Managing climate risk exposure at portfolio level in sectors with environmental and social risks and integrating environmental and climate risks as important drivers in FI stress tests.
- Undertaking research and sector assessments, building staff capacity, developing guidance, and establishing governance structures to manage climate risk.
- Developing risk assessment and disclosure approaches for climate-related physical and transition risks and financial impacts in line with the Task Force on Climate-Related Financial Disclosures (TCFD).

There is also an increasing focus by the financial sector on net-zero emissions strategies and alignment with the Paris Agreement. Countries' efforts to reduce national emissions and adapt to the impacts of climate change are embodied in their Nationally Determined Contributions (NDCs) to the Paris Agreement. As discussed in Pillar 3: Financing Sustainability, achieving these commitments offers **climate investment opportunities in trillions of dollars** as countries mobilize their financial sectors to achieve climate goals.

4 According to the TCFD's "Guidance on Risk Management Integration and Disclosure", several characteristics of climate-related risks are unique, including: i) they exist and play out over time horizons that stretch beyond traditional business planning and investment cycles; ii) the effects of climate change and climate-related risks occur on local, regional, and global scales with different implications for different businesses, products and services, markets, operations, and value chains; iii) many of the effects of climate change have no precedent, limiting the ability to apply statistical and trend analysis based on historical data; iv) climate-related risks may manifest at different scales over time, with increasing severity and scope of impacts; and v) the risks associated with climate change are interconnected across socioeconomic and financial systems.

Many country case studies highlight the importance of **conducting research, surveys, and consultation** to assess awareness and capacity of financial institutions on environmental and social risk management, including climate-related risks, before introducing new frameworks. These types of engagement increase the chances of successful implementation and help identify where additional guidance and support is needed. There are also multiple, successful examples of banking associations that have collaborated with financial sector regulators in conducting such preliminary research mong their members.

Multi-stakeholder, public-private platforms are therefore emerging as highly effective fora to manage the range of initiatives that are needed to advance sustainable finance across the financial sector in an integrated and consistent way. Examples include Mexico's Sustainable Finance Committee, the Mongolia Sustainable Finance Association, and South Africa's Climate Risk Forum. Often hosted or facilitated by banking associations, these platforms typically include policy makers and regulators to facilitate public-private dialogue. A variety of working groups are typically established to conduct research and develop guidance on key themes. These platforms solve a critical challenge expressed by many SBFN countries, which is to ensure effective coordination among government and regulatory agencies and across different parts of the private sector.

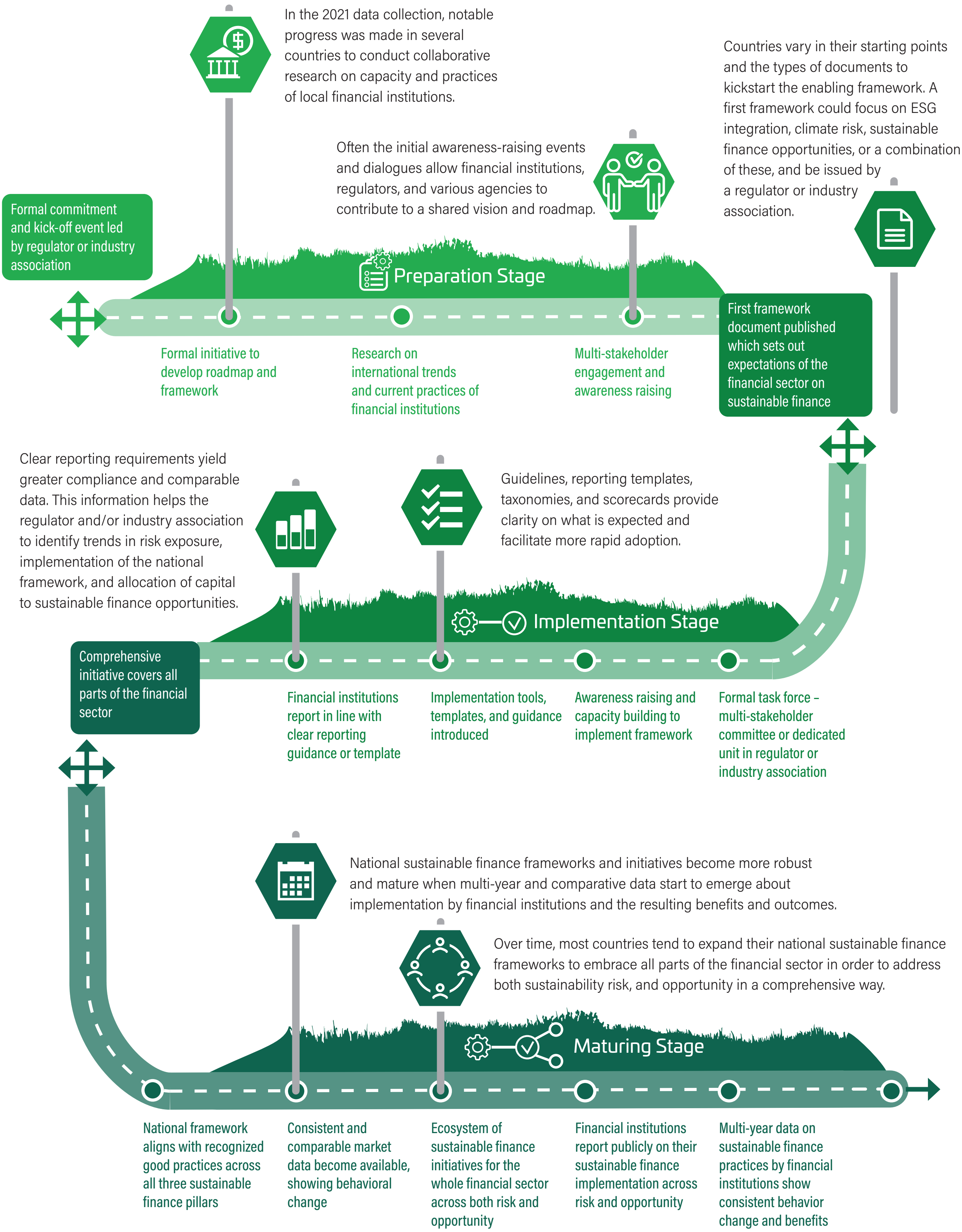
The role of capital market regulators and stock exchanges has become more prominent. Almost a third (27 percent) of member institutions represent or oversee capital markets, asset management, insurance, or asset owners, such as retirement funds. The sustainable finance frameworks in 14 countries cover capital markets, investment, insurance, or other non-lending financial institutions.

Capital market regulators and stock exchanges have been at the forefront of introducing ESG-focused disclosure requirements for listed companies. They have also introduced guidelines for issuance of green, social, and sustainability bonds. More recently, stock exchanges are championing disclosure of climate risk, evidenced by the "Model Guidance on Climate Disclosure" launched in June 2021 by the United Nations Sustainable Stock Exchanges initiative. In some cases, capital markets have issued the first national sustainable finance frameworks and have been champions with fellow regulators for a collective national sustainable finance roadmap. For SBFN countries where capital markets are underdeveloped, there is an opportunity to integrate ESG factors at the outset as countries look for opportunities to expand their capital markets.

Figure 3 on the following page shows the typical national journey for SBFN countries as they connect these various components. Knowledge sharing with peers is one of the ways that new members are moving more quickly through the various stages.

When ESG frameworks are strongly aligned with international sustainable development frameworks, there is more likely to be a national framework in place to help banks manage climate risks.

Figure 3: Emerging roadmap for sustainable finance frameworks across all three pillars



Financial inclusion has become more prominent in the sustainable finance landscape. SBFN members have consistently agreed that financial inclusion is an essential component of sustainable finance and a critical enabler for achieving several SDGs. This theme became stronger in 2021 due to the impact of COVID-19. Many members have prioritized financial inclusion within their national sustainable finance policy or voluntary industry principles and include financial inclusion as a top priority for their sustainable finance committees, working groups, and institutional roadmaps. For example, the Sustainable Finance Group within Colombia's Financial Superintendence of Colombia has this dual responsibility.

The interdependency between financial inclusion and other sustainability themes has become clearer. For example, Reserve Bank of Fiji is tracking how climate change is impacting retail and wholesale banking consumers, and Morocco's new gender bond guidelines aim to address the financial inclusion of women and their greater vulnerability to impacts from COVID-19 and climate change. Some environmentally-focused finance innovations are also demonstrating cross-cutting benefits by supporting financial inclusion and social resilience. Examples include climate smart agriculture and off-grid solar solutions.

Biodiversity is following climate change as a top priority. The launch of the Task Force on Nature-related Financial Disclosures in June 2021 confirmed that biodiversity will be one of the next big priorities for the financial sector. The initiative is aligning its approach with the TCFD and highlights how protection of nature also helps countries mitigate and adapt to climate change.

Management of natural carbon sinks — such as oceans, forests, mangroves, grasslands, and soils — is included in the Climate Risk Management pillar this year and was mentioned by nine countries. This number is expected to be higher moving forward, given the importance of biodiversity and carbon sinks in many member countries. For example, the TCFD Roadmap introduced by the Brazilian Federation of Banks includes the development of "tropicalized" climate scenarios to guide the analysis and stress testing of climate risks and impacts in bank portfolios and to reflect Brazil's national context with a focus on energy and agribusiness sectors. The roadmap notes the key role of natural carbon sinks as part of climate risk management.

Over a third of SBFN member institutions represent or oversee capital markets, asset management, insurance, or asset owners

Data on ESG risk, performance, and impact are needed by financial sector participants to identify and price risks and opportunities. Data is also needed to monitor the development of the market for sustainability-focused finance. China was a first mover in developing its Green Credit Statistics System. This has enabled Chinese banks to report systematically on the percentage of their loans that can be classified as green and to demonstrate the link with lower credit risk. Examples from a number of SBFN countries reinforce the effectiveness of mandatory requirements that require financial institutions to report to the regulator on i) their implementation of ESG frameworks, ii) their allocation of capital to sustainable sectors, and/or iii) their management of climate risk. Data is more robust in cases where clear reporting guidance, templates, and taxonomies are provided. Capital markets regulators and stock exchanges can promote public disclosure that benefits all market participants. Coordination between regulatory authorities can avoid duplication or misalignment of disclosure requirements. Data needs and usage by different market players should also be considered.

International convergence in standards for sustainability disclosure is a timely development as most SBFN member countries prepare to deepen their disclosure expectations of FIs and banks' clients in the real sector. The TCFD is driving urgency in this regard, with many members also closely following developments in the European Union and by the International Financial Reporting Standards Foundation before committing to new sustainability disclosure guidance. Model guidance, such as provided by the United Nations Sustainable Stock Exchanges initiative for climate disclosure, provides confidence in aligning with global good practice.

All SBFN countries highlighted the need for continued awareness raising and capacity building for regulators, industry associations, and financial institutions. Regulators emphasized a pressing need to continue building internal institutional capacity, particularly when it comes to supervising compliance and good practice by financial institutions. Coordinated efforts by international development institutions and other stakeholders could help address these capacity needs. There is significant demand for structured training and e-learning for various parts of the financial sector, with consideration for different institutional functions and units, different sustainable finance topics, and tailored towards member countries at distinct stages of their sustainable finance journeys.

Capacity building is particularly critical for low-income countries and countries affected by fragility, conflict, and violence. SBFN's 2020 report on national sustainable finance initiatives in low-income countries, entitled "Necessary Ambition"[5], demonstrated clear progress and commitment by low-income countries to develop enabling frameworks despite resource constraints and competing national priorities. Sustainable finance was seen as a critical tool for strengthening market resilience and addressing major social and environmental challenges. However, additional international support is needed to de-risk investment and unlock sustainable finance at scale.

Conclusion

SBFN is a voluntary platform for knowledge exchange and collaboration among financial sector regulators and industry associations in emerging markets. The network supports members in a number of ways:

- Providing continuous partnership and direct technical input to the development of national frameworks and roadmaps by leveraging the rich knowledge base of member experiences and insights.
- Working with IFC and World Bank programs to provide deeper technical assistance to member countries at different stages of their sustainable finance journeys.
- Collating member knowledge and ensuring these emerging market perspectives are reflected in the global dialogue on sustainable finance.
- Convening members' collective efforts to conduct research and develop common approaches and tools, such as through member-led Working Groups and Task Forces.
- Supporting catalytic workshops in countries to engage a range of stakeholders around a common national vision and roadmap.

More than ever, sustainable finance is proving a powerful mechanism to help countries rebuild and become more resilient when faced with major social and environmental challenges. The COVID-19 pandemic is a powerful example. Leading countries have shown that proactive actions can help attract international capital and unlock financing for new green and inclusive sectors. This has included finance to respond to the impacts of the pandemic. Delayed action can put local financial institutions at a disadvantage, while lack of alignment with other markets can create costs and inefficiencies in cross-border sustainable finance activities. Coordination between national financial sector regulatory agencies and industry bodies is increasingly important. Findings from the 2021 benchmarking of SBFN countries' progress reveal important next priorities for collective work by members, IFC, World Bank, and other development partners.

24 countries
(56% of SBFN countries)
have launched green, social, or sustainability bond guidelines

PROPOSED ACTIONS FOR SBFN MEMBERS AT COUNTRY LEVEL

- **Expand and deepen frameworks for managing ESG risk throughout the financial sector** as a foundation for competitiveness, investment opportunity, climate resilience, and impact through sustainable finance.
- **Fast-track the development of climate risk guidance and tools** to enable regulators, industry associations, and financial institutions to assess, monitor, and report on climate risk and financial impacts in line with

5 SBFN, "Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges", 2020.

international practice — recognizing the global urgency to act on climate change.

- **Broaden the understanding of national sustainable finance roadmaps** to recognize the diversity of approaches and starting points, including the potential leadership role of all parts of the financial sector, whether banking, capital markets, insurance, and pension funds.
- **Support the continued expansion of sustainable finance beyond "green"** to include financial inclusion, just transitions, human rights, gender, health, inequality, and other SDGs.
- **Strengthen and align data and disclosure requirements** for all parts of the sustainable finance ecosystem, particularly through collaboration between regulatory agencies.

More than ever, sustainable finance is proving a powerful mechanism to help countries rebuild and become more resilient when faced with major social and environmental challenges, such as the COVID-19 pandemic.

Proposed Collective Actions by the SBFN Community

- **Continue to raise awareness and build capacity** of regulators and banks to design and implement effective sustainable finance frameworks.
- **Strengthen collaboration on common approaches and tools** through the SBFN Working Groups and participation in global dialogue.
- **Consolidate the immense knowledge base within the SBFN community** into dynamic and accessible tools, data, case studies, and evidence for members to more effectively learn and collaborate on specific aspects of sustainable finance.

The **SBFN Secretariat** will support these efforts in the next two years in the following ways:

- Convene the **Sustainable Finance Instruments Working Group** to map the landscape of sustainability-focused financial instruments and support the development of common approaches to national taxonomies and other strategies to increase credibility.
- Convene the **Data and Disclosure Working Group** to map the work being done across the Network on reporting frameworks, disclosure requirements, monitoring, and data sharing for sustainable finance, and identify common tools and principles to support members.
- Support ongoing work by the **SBFN IDA[6] Task Force** to develop tools and resources to help build capacity and streamline adoption of effective sustainable finance roadmaps and frameworks in low-income countries.
- **Support members in planning their capacity building programs** and accessing training tools and programs offered by IFC, the World Bank, and other development partners.
- Continue to facilitate **virtual knowledge exchanges** between members on topics of interest, as well as hosting webinars to feature member experiences and international experts.
- Develop **interactive online analytical tools and resources** that leverage the wealth of data gathered through the SBFN Global Progress Reports.

In addition, SBFN will represent emerging market perspectives in global dialogues on sustainable finance, including

- **Contributing member insights to international initiatives on sustainable finance**, such as the G20 Sustainable Finance Working Group, Network for Greening the Financial Sector (NGFS), and the International Platform on Sustainable Finance (IPSF).
- **Working with regional platforms** such as the ASEAN central banks and monetary authorities, the Latin American Banking Association (FELABAN), and the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO), to promote regional collaboration, innovation, and knowledge sharing.

6 "IDA" in this context refers to a focus on low-income countries eligible to receive support from the International Development Association, part of the World Bank Group.

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