

The Sustainable Banking Network (SBN)

NECESSARY AMBITION:

How Low-Income Countries Are
Adopting Sustainable Finance to
Address Poverty, Climate Change,
and Other Urgent Challenges

June 2020



THE SITUATION ON POVERTY

700m+ people live in extreme poverty¹



2/3 ARE IN
 **IDA COUNTRIES**



400m
in Sub-Saharan Africa



160m
in fragile and conflict-affected situations

Poverty is exacerbated by:

Fragility, conflict and violence

Climate change and natural disasters

Health crises and pandemics

Debt



A lack of:

-  jobs
-  medical care
-  financial access
-  schools/teachers
-  clean water
-  roads
-  electricity





Climate change & the pandemic can aggravate poverty and exacerbate the challenges

- In the past ten years, 3 out of the 10 countries that are most affected by extreme weather events (1999-2018) are IDA countries, who also all happen to be SBN members: **Bangladesh, Pakistan, and Nepal.**
- If unchecked, climate change could push **an additional 100 million people into poverty by 2030**, with severe consequences for the extreme poor and the most vulnerable.
- The World Bank estimates the current COVI-19 pandemic will **push 49 million people into extreme poverty in 2020.**

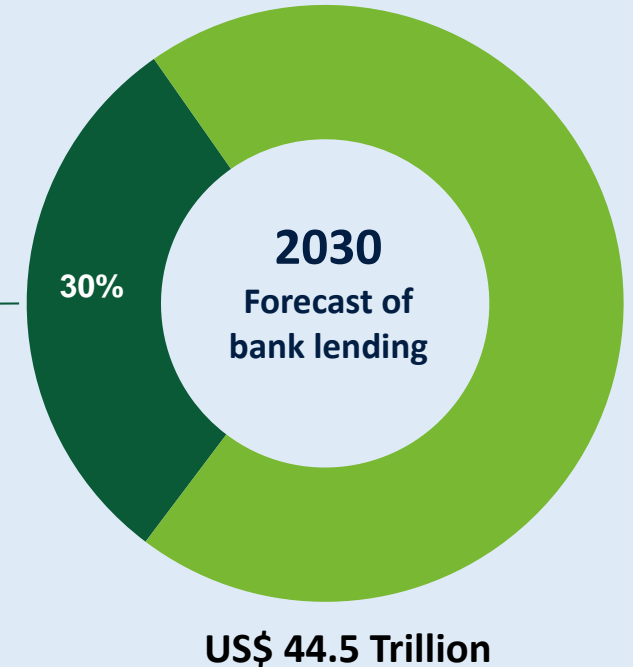
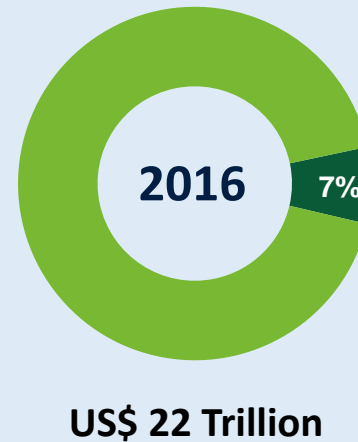
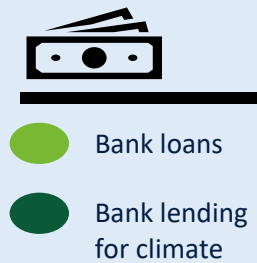
“While the tragic impacts of this pandemic are being felt globally, this crisis will likely hit the poorest and most vulnerable countries, and their people, the hardest.”

The World Bank Group President David Malpass



Climate Financing Opportunities in Emerging Markets, Contributing to the Paris Agreement and Nationally Determined Contributions (NDCs)

Source: IFC Compilation, data from:
Climate Investment Opportunities in Cities,
IFC, 2018
[Raising \\$23 Trillion: Greening Banks and Capital Markets for Growth](#)



IFC estimates there are **US\$29 trillion** climate investment opportunities in six urban sectors in emerging markets cities until 2030. Banks need to increase the share of climate lending from **7% today to 30% in 2030** to mobilize the necessary financing for investment opportunities presented by the NDCs in those 21 countries.

SBN Necessary Ambition Report – SBN and Members



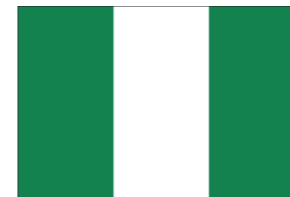
The **Sustainable Banking Network (SBN)** is a unique, voluntary community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice. Eight years since the network's establishment, its members now represent 39 countries and \$43 trillion (86 percent) of the banking assets in emerging markets.

IFC serves as the Secretariat and Technical Advisor, assisting members to share knowledge and access capacity building that helps them design and implement national sustainable finance initiatives.





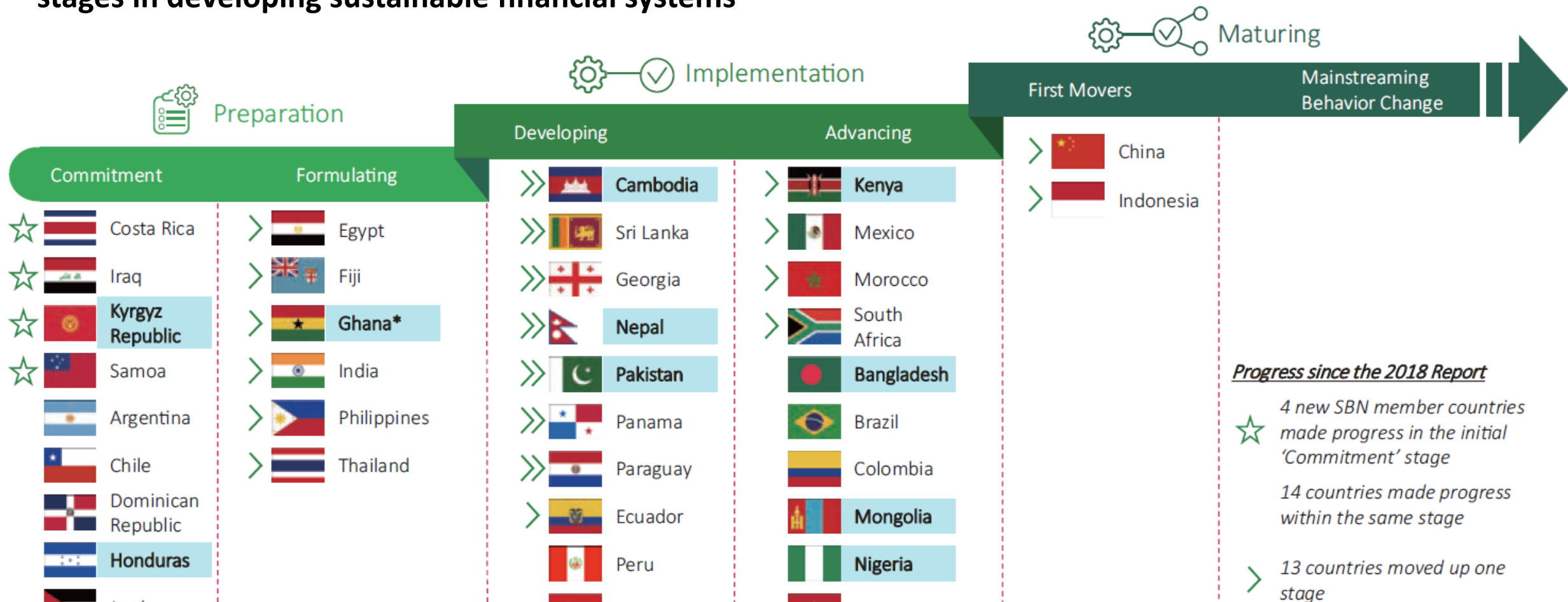
Responding to the request from its IDA members, the IDA Task Force was established to provide targeted assessment of and support to sustainable finance development and implementation in 11 SBN IDA countries. They are **Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Nigeria, and Pakistan.**



SBN Necessary Ambition Report – SBN and Members



Some IDA countries are among the more advanced SBN members, though many are still at earlier stages in developing sustainable financial systems

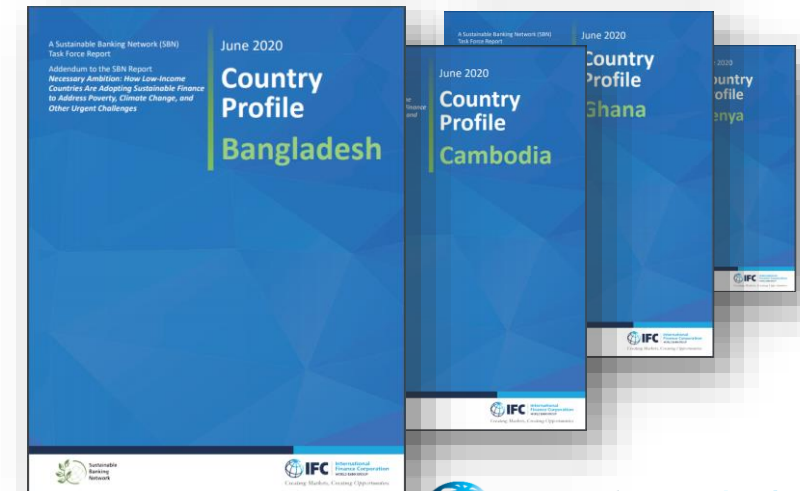


* Ghana launched their policies and principles in November 2019, after the publish of SBN 2019 Global Progress Report.

SBN Necessary Ambition Report – IDA Diagnostic Assessment



- **Built on the findings from the SBN Global Progress Reports**
 - Identify drivers and challenges to develop and implement sustainable finance framework
 - Help IDA members to overcome common challenges on developing and implementing the sustainable finance framework
 - Illustrate best practices and examples on leveraging sustainable finance framework to address other financial sector development priorities
- **The structure of the report:**
 - Diagnostic survey findings
 - 16 best practice case studies
 - Country profile reports on 8 IDA members
 - **Vivid Economics**, a UK based consulting company was commissioned to undertake the research and prepare the report.





The development of sustainable finance frameworks has proved to be a crucial tool for empowering banks and other financial institutions to address environmental and social challenges, to de-risk investments, and to create new green and inclusive investment opportunities in IDA countries. In IDA countries, sustainable finance frameworks have the potential to:

- Enable banks to implement Environmental and Social Risk Management (ESRM) so that they can comprehensively monitor the risks associated with their lending portfolios and encourage their clients to address these risks;
- Direct domestic and international finance flows to environmental and social priorities;
- Extend financial inclusion by delivering financial services to households; and
- Boost financial flows to priority sectors that have been neglected by the financial sector, including agriculture and small businesses.

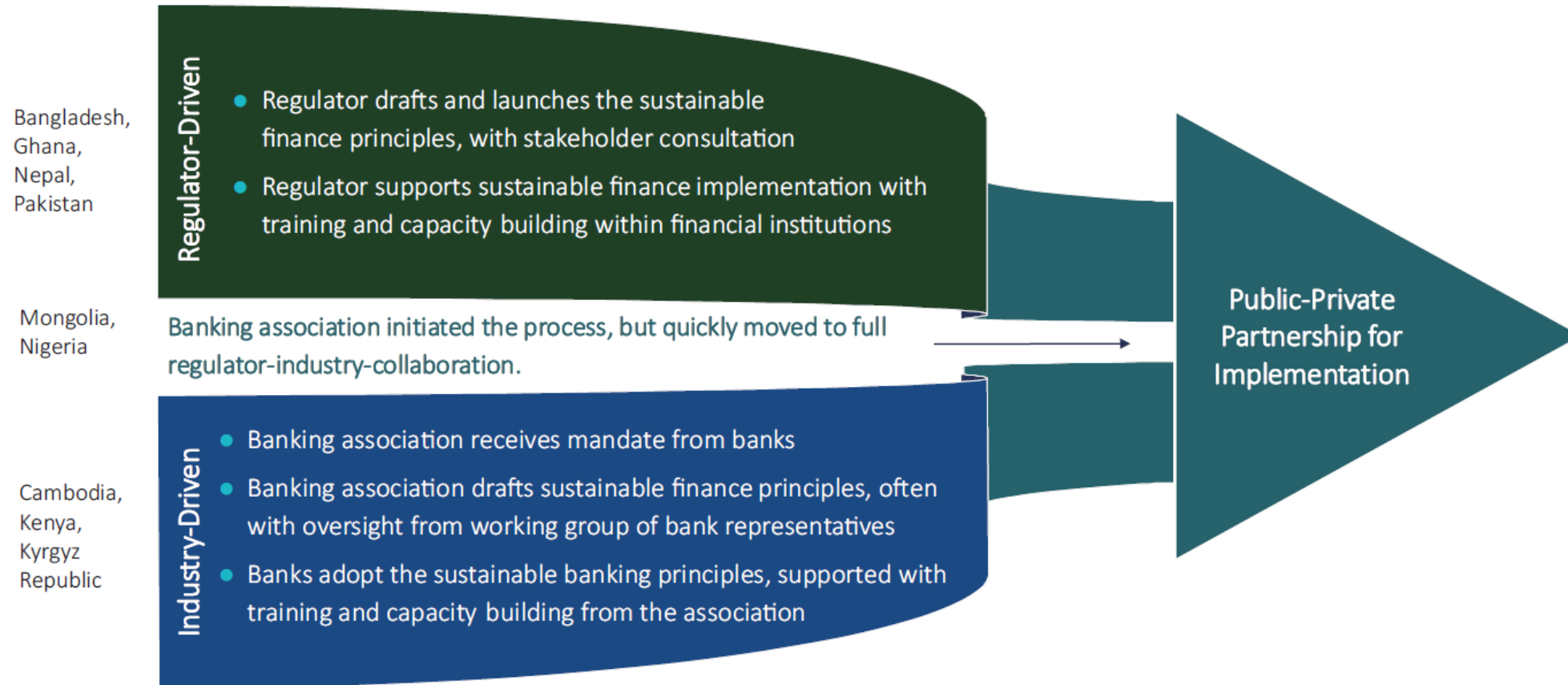


Policy environment was most often considered an important driving factor for sustainable finance development, followed by having a coordinated voluntary approach and environmental and social challenges

| | High | Medium | Low | N/A |
|--|----------------|------------|--------|----------|
| Policy environment: National commitments to the Sustainable Development Goals (SDGs), Paris Agreement on Climate Change, or a National Sustainable Development Policy | ● ● ● ● ● ● | | ● | ● |
| Policymaker and/or regulator engagement: National guidelines or regulatory requirements to better-manage environmental and social (E&S) risks in the financial sector, improving financial stability | ● ● ● | ● | ● ● | ● ● |
| Coordinated voluntary approach: Initiative taken by local financial institutions to adopt international good practices in sustainable finance and level the playing field | ● ● ● ● | ● | | ● ● ● |
| Market incentives: Opportunity to increase competitiveness and resilience of the financial sector through innovation in green and socially inclusive finance | ● ● | ● ● ● | ● ● | ● |
| Environmental and social challenges: E&S risk exposure that fosters participation of financial institutions to address the E&S risks at the country level | ● ● ● ● | ● | ● ● | ● |
| Peer experience: Demonstration effect of countries that have adopted a sustainable finance roadmap | ● | ● ● ● ● | ● | ● ● |



IDA countries have typically followed one of two pathways to sustainable finance development



SBN Necessary Ambition Report – Key Findings



SBN IDA countries are at different stages of their journey to developing and embedding sustainable financial systems

| | | Trigger Engage Launch Refine | | | |
|--|-----------------|--|--|---|--|
| Regulator-Driven | Nepal | Nepal Rastra Bank joins SBN (2014) | Nepal Rastra Bank announces plans to develop environmental and social risk manual (2017) | Nepal Rastra Bank issues ESRM Guidelines (2018) | |
| | Bangladesh | Growing awareness of Bangladesh's vulnerability to climate change (2009) | Sustainable banking becomes a central issue for Bangladesh Bank (2010) | Bangladesh Bank launches banking guidelines, Environmental Risk Management Framework (2011) | Guidelines extended to other institutions (2013), ERM guidelines widened to include social risk (2017) |
| | Pakistan | Sustainable banking recognized as key to developing reliable and renewable energy | Green Banking Guidelines developed and launched (2017) | | |
| | Ghana | Sustainable Banking Committee for Ghana created (2015) | Draft Sustainable Banking Principles developed and discussed with stakeholders (2017-18) | | |
| Initiated by Industry then rapidly moved to Regulator-Industry Collaboration | Nigeria | International partners organize Sustainable Finance Week to raise awareness (2011) | Bankers Committee develops and adopts Banking Principles and guidelines (2012) | Nigeria issues first green sovereign bond (2017) | Banking Principles extended to the financial sector (2016), sustainable finance roadmap published (2018) |
| | Mongolia | Trade and Development Bank, develops ESMS with FMO support (2012) | Trade and Development Bank, Mongolian Bankers Association, partners convene forum (2013) | Sustainable Finance Principles launched (2014) | Mongolian Sustainable Finance Association established (2017), Roadmap published (2018) |
| | Cambodia | Association of Banks in Cambodia announces intention to develop sustainable finance (2016) | Association of Banks in Cambodia establishes Sustainable Finance Committee (2017) | Sustainable Finance Committee drafts policy, adopted by banks (2019) | |
| Industry-Driven | Kyrgyz Republic | Union of Banks of Kyrgyzstan joins the SBN, signalling intention to develop sustainable finance (2018) | Union of Banks of Kyrgyzstan establishes a working group (2018) | | |
| | Kenya | Kenyan Bankers Association convenes a forum, leads to the Sustainable Finance Initiative (2013) | Kenyan Bankers Association forms a working group (2013) | Kenyan Bankers Association drafts and launches Guiding Principles (2015) | Kenyan Bankers Association supports reporting of Guidelines, plans to issue green bond (2019) |




Common challenges and solutions across SBN IDA countries

| Challenges | Solutions |
|--|---|
| Capacity constraints within banks to implement sustainable finance | Extensive training, including workshops and train-the-trainer sessions |
| | Development of E-learning platform for sensitization and training |
| | Knowledge sharing meetings to share challenges, solutions, and best practices |
| | Development of additional guidelines, templates, and taxonomies |
| Limited national expertise to lead the sustainable finance process | Utilize the support of international partners |
| | International exchange visits |
| Banks often prioritize profits over sustainability | Engagement with banks to persuade them of sustainable finance benefits |
| | Demonstration of commitment among key stakeholders |
| | Encourage ownership among the banks through significant engagement |
| | Create awards for banks to incentivize strong performance |
| Banks are wary of additional regulatory burden | Implement sustainable finance gradually to support internal capacity building |



Six priority areas for future action identified by SBN IDA countries



| Priority area | Description | High priority for |
|--|--|---|
| Green finance opportunities | Support green finance flows, such as green bond issuance | Bangladesh, Cambodia, Ghana, Kenya, Mongolia, Nigeria |
| Sustainable finance roadmap | Create overarching framework to incentivize green finance flows | Bangladesh, Ghana, Mongolia, Nepal |
| Tools and resources | Develop implementation tools, such as sector guidelines | Cambodia, Kenya, Mongolia, Nigeria |
| Extend sustainable finance to other financial subsectors | Embedding sustainable finance beyond banking sector, e.g., capital markets | Cambodia, Ghana, Mongolia |
| Increase engagement with regulator | Increase engagement with the regulator to support enforcement | Cambodia, Mongolia |
| Encourage reporting of sustainable finance progress | Support banks to report on progress, without overly burdening them | Kenya, Nigeria |

SBN Necessary Ambition Report – Key Findings



A number of ongoing challenges limit the depth and speed of development and implementation of frameworks to support sustainable finance

| | | High | Medium | Low | N/A |
|--|---|---------|--------|-----|-----|
| Enabling environment and capacity building | Build the capacity of regulators and financial institutions | ● ● ● ● | | | |
| | Enhance cooperation among financial institutions | ● ● ● | ● | | |
| | Provide clear incentives for sustainable finance | ● ● ● | ● | | |
| | Develop and launch a sustainable finance roadmap | ● ● ● | ● | | ● |
| | Expand sustainable finance to other financial sectors | ● | ● ● | ● | |
| Specific regulations or tools | Develop a taxonomy of green/socially inclusive projects | ● ● ● ● | ● | | |
| | Promote public available environmental data | ● ● ● | ● | | |
| | Create green asset guidelines, incentives, and awareness | ● ● ● | ● | ● | |

SBN Necessary Ambition Report – Key Findings



Key areas of concern related to financial sector development

| | | High | Medium | Low | N/A |
|--|---|---------|--------|-----|-----|
| Enabling environment and capacity building | Build the capacity of regulators and financial institutions | ● ● ● ● | | | |
| | Enhance cooperation among financial institutions | ● ● ● | ● | | |
| | Provide clear incentives for sustainable finance | ● ● ● | ● | | |
| | Develop and launch a sustainable finance roadmap | ● ● ● | ● | | ● |
| | Expand sustainable finance to other financial sectors | ● | ● ● | ● | |
| Specific regulations or tools | Develop a taxonomy of green/socially inclusive projects | ● ● ● ● | ● | | |
| | Promote public available environmental data | ● ● ● | ● | | |
| | Create green asset guidelines, incentives, and awareness | ● ● ● | ● | ● | |



The Diagnostic identified a number of areas where IDA countries have demonstrated strong progress in implementing sustainable finance frameworks, and areas where sustainable finance has connected with broader development ambitions.

Four key themes in sustainable finance frameworks of SBN IDA member countries

Critical issues in designing and implementing sustainable finance frameworks



How have IDA countries supported banks to implement ESRM?



How have IDA countries connected sustainable finance with developing green-finance opportunities?

Connecting sustainable finance frameworks with national development priorities



How have IDA countries connected sustainable finance development with promoting financial inclusion?



How have IDA countries connected sustainable finance to investment in agriculture and SMEs?







Keys lessons for developing and promoting ESRM guidance for banks SBN IDA countries’ experiences suggest three key lessons for other IDA countries when developing and promoting ESRM guidance:

- 1. Draw on international resources and experience:** Organizations such as IFC provide Sustainability Framework, methodologies, and tools to support the development of ESRMs by banks.
- 2. Stakeholder engagement can help create a policy that is adapted and accepted:** Extensive stakeholder engagement can help assess the level of understanding among banks that will be asked to implement these policies and inform how the policy should be presented and what might be required to implement it. Stakeholder engagement also presents the chance to explain why the ESRM policy is important and build stakeholder buy-in.
- 3. Building an ESRM policy over time enables stakeholders to adapt progressively:** Incrementally creating and broadening the scope of ESRM can provide the opportunity to start implementing parts of ESRM early on, allowing time for stakeholders to adapt and policy makers to build on and refine the policy.

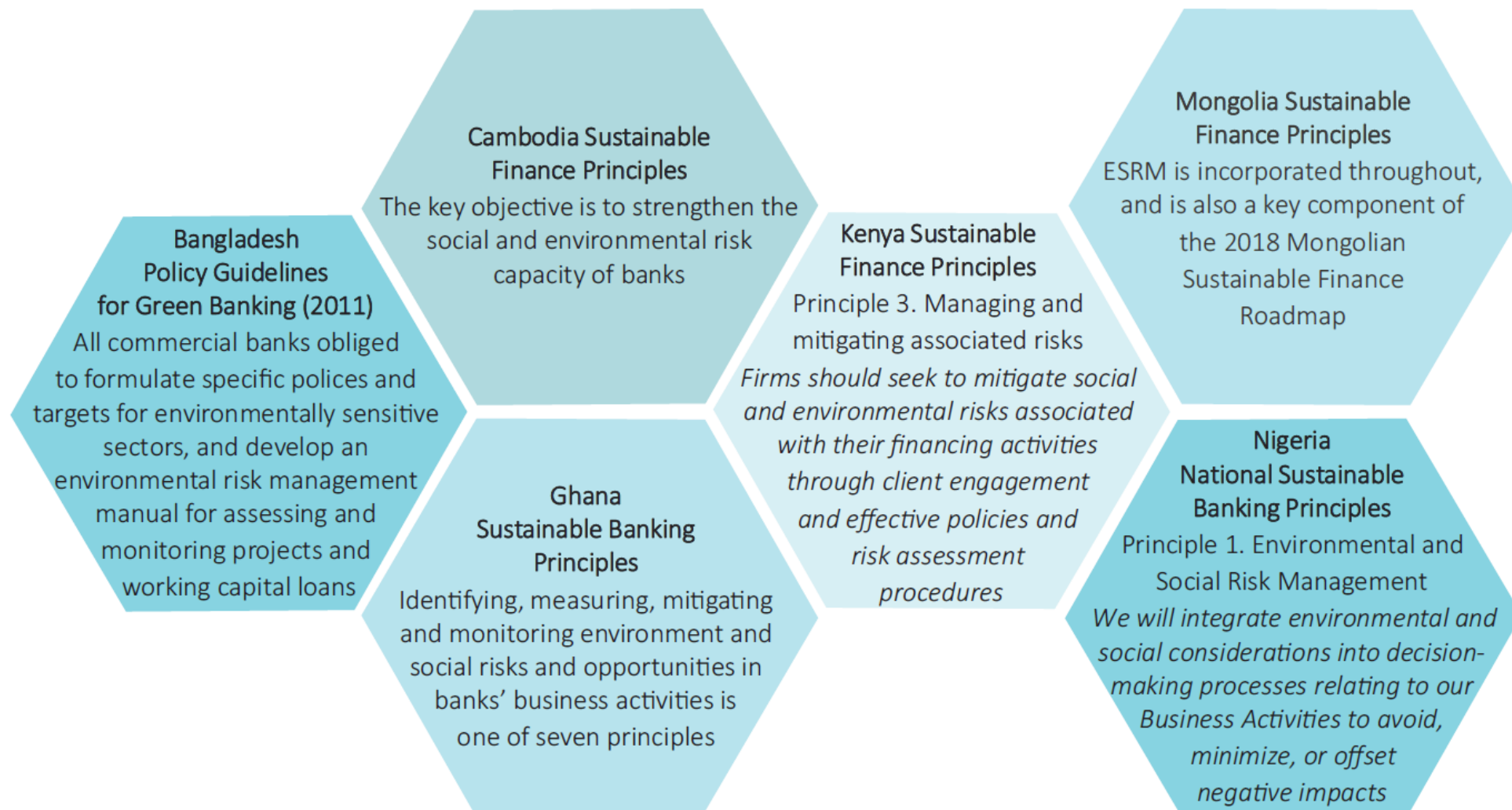


SBN IDA members have developed ESRM guidelines and supported their implementation by banks

| | | Action | Objective | Examples from SBN members |
|---------------------------|---|---|--|---|
| Policies/ guidelines |  | Incorporate ESRM into sustainable finance framework | Require participating banks to develop and implement ESMSs | Bangladesh, Cambodia, Ghana, Kenya, Mongolia, Nigeria |
| |  | Develop standalone ESRM guidelines | Comprehensive approach to encourage ESRM in banks | Bangladesh, Ghana, Nepal |
| Implementation support |  | Tools, templates and resources for ESRM | Provide resources to support ESRM implementation in banks | Bangladesh, Mongolia, Nepal |
| |  | Monitoring and enforcing ESRM implementation | Encourage compliance with ESRM guidelines | Bangladesh, Nigeria |



Leading SBN IDA members have closely integrated ESRM into sustainable finance priorities and frameworks





SBN IDA countries' experiences suggest three key lessons for other IDA countries when promoting **green finance**:

- **Plan for broad stakeholder engagement to help create well-tailored policies, definitions, and standards.** Extensive stakeholder engagement can help gauge the level of understanding among banks about green projects and green finance issues. This context is critical to pitching tools such as project definitions at the right level and providing insight on how they should be presented and what will be required to implement them.
- **Support banks with additional guidance to build capacity:** Providing resources and time to support banks' implementation of green finance policies can increase the uptake and effectiveness of such policies.
- **Draw on international support and resources where possible:** Organizations including IFC, the Climate Bonds Initiative, and the UN Environment Programme can provide support to develop green bond guidelines and green taxonomies, including a template to adapt to each national environment.









While sustainable finance frameworks so far have been largely untapped to support financial inclusion, SBN IDA countries' experiences suggest two lessons for IDA countries looking to improve **financial inclusion**:

- **Regulators and banking associations can integrate supply-side measures alongside sustainable finance mandates to boost support for financial inclusion.** These include mandates and support for expanding access, targeting key priority and vulnerable groups, and expanding the range of services provided within sustainable banking approaches.
- **Outreach, communication, and education efforts for sustainable finance can be combined with efforts to increase financial literacy and awareness.** Indeed, efforts to increase awareness and literacy may boost the effectiveness of awareness-raising for green and sustainable finance.

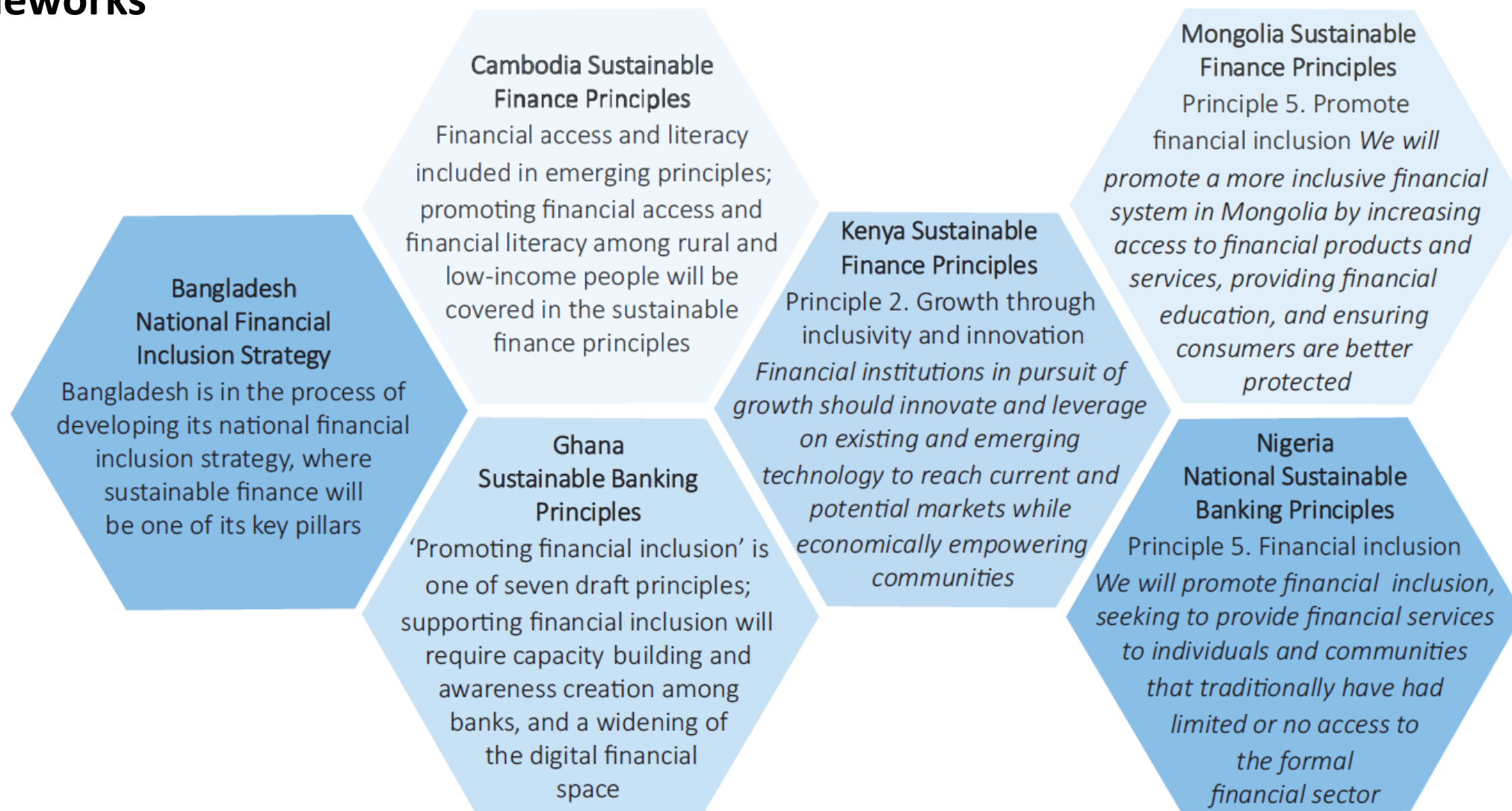


Demand and supply side actions have been implemented by SBN members to drive financial inclusion

| | Action | Objective | Examples from SBN members |
|--------|--|--|---|
| Supply |  Facilitate inclusive banking services | Support mobile, electronic and agent banking | Bangladesh, Ghana, Kenya, Mongolia, Nigeria |
| |  Targeted actions for improving accessibility of banking services | Ensure marginalized groups are able to access banking services | Kenya, Mongolia |
| |  Mandating banks to expand access | Direct banks to provide access to underserved customers | Bangladesh |
| Demand |  Awareness raising and financial literacy | Increase understanding of and demand for financial services | Bangladesh, Ghana, Mongolia, Nigeria |
| |  Financial awareness among children and youth | Equip youth with core skills for engaging with the sector | Bangladesh, Mongolia, Nigeria |
| |  Improve consumer protection | Increase confidence in the financial sector | Bangladesh, Ghana, Nigeria |



Leading IDA SBN members closely integrate financial inclusion into sustainable finance frameworks












- **SBN IDA countries’ experiences suggest three lessons for other IDA countries looking to support agriculture and SME finance within sustainable finance frameworks:**
- **Regulators can set minimum investment targets or targeted credit schemes to promote green activities within the agriculture and SME sectors.** For example, countries can preferentially support more environmentally-friendly technologies and approaches. It may be particularly effective to focus on lending to improve the sustainability of sectors; encourage banks to identify opportunities for expanding their lending to the agriculture or SME sectors; ensure banks manage and monitor their lending portfolios to the agriculture and SME sectors, and include this as part of their sustainable finance reporting requirements.
- **Countries can leverage sustainable finance initiatives to upgrade key systems and implement initiatives to support financing to key sectors.** In particular, refinancing schemes and risk sharing approaches to enable commercial loans can boost the flow of finance to agriculture and SMEs.
- **Countries can look to integrate sustainability into traditional support approaches for SMEs.** For example, by including support for green businesses and sustainability for entrepreneurs.

SBN Necessary Ambition Report – Addressing Key Priorities

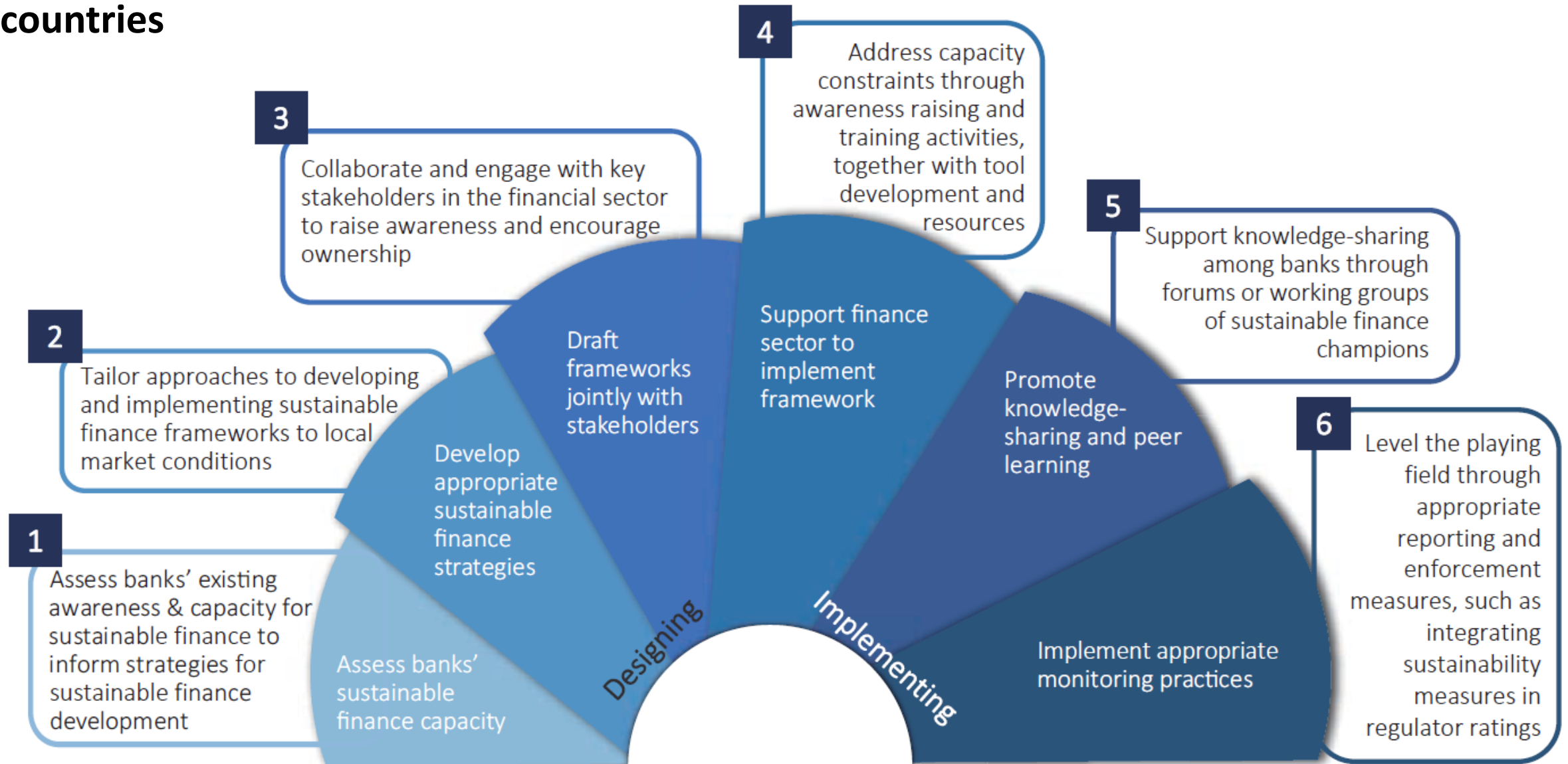


SBN IDA members have implemented various policies and programs to support agriculture and SME finance that have close synergies with or are broadly supportive of sustainable finance frameworks

| | Action | Objective | Examples from SBN members |
|------------------------|--|---|-----------------------------------|
| Expand finance |  Set minimum targets for investment for banks | Increase the flow of credit through mandating bank loans | Bangladesh, Ghana, Nepal, Nigeria |
| |  Implement credit schemes and funds | Provide subsidized loans to agriculture and SMEs | Nigeria |
| Address market failure |  Refinancing facilities for eligible loans | Increase incentives for banks to lend to agriculture and SMEs | Bangladesh |
| |  Risk sharing systems for agricultural loans | Reduce banks' exposure to production and market risks | Ghana, Nigeria |
| |  Develop key finance infrastructure | Facilitate the flow of credit | Ghana, Kenya, Mongolia, Nigeria |
| Programmatic approach |  Entrepreneurship programs | Equip SMEs to grow their business and access finance | Kenya |
| |  Collaboration with international partners | Benefit from support in improving access to finance | Bangladesh, Nepal |



Planning Tool #1: Six best practices for developing sustainable finance in SBN IDA countries



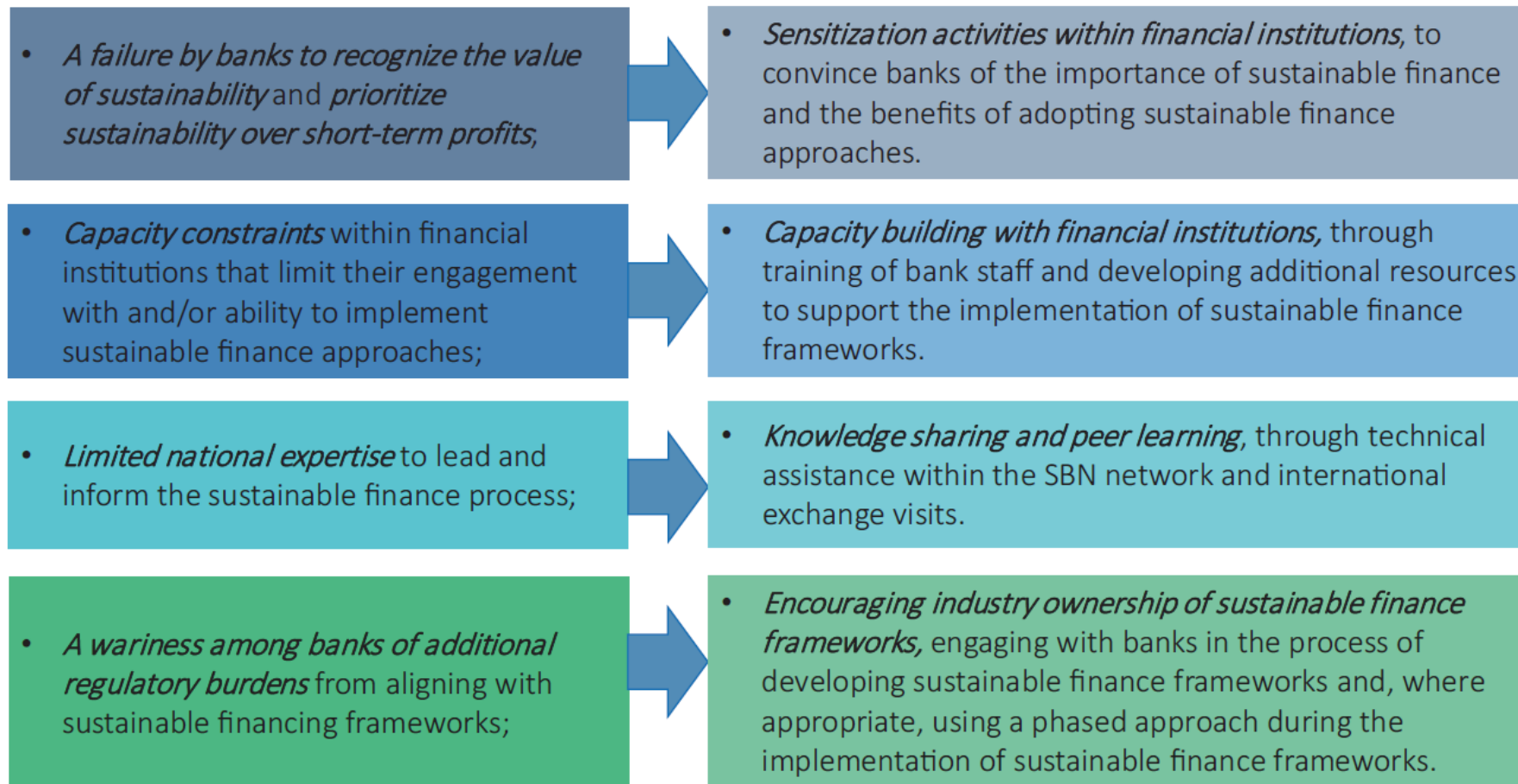


Planning Tool #2: Common stages and steps for developing and implementing sustainable finance frameworks





Planning Tool #3: Best practice solutions to overcome common challenges related to developing and implementing sustainable finance framework





- **Building sustainability into financial systems** not only helps **manage E&S** and **climate risks**, but also **de-risks markets to enable** greater **investment flows** and **deepen financial market development**.
- In IDA countries, **sustainable finance frameworks have the potential to:**
 - **Enable** banks to implement ESRM so that they can comprehensively **monitor the risks associated** with their **lending portfolios** and encourage their clients to **address these risks**;
 - **Direct** domestic and international **finance flows** to **E&S priorities**;
 - **Extend financial inclusion** by delivering financial services to households; and
 - **Boost financial flows** to priority sectors.
- **Sustainable finance frameworks** provide an opportunity **for IDA countries** to **increase** their **market resilience** and **unlock new green** and **inclusive investment** opportunities.
- **SBN IDA countries recognize** that transitioning to **sustainable financial systems** is **critical to their futures**.



- **To realize the benefits** of integrating sustainability into financial systems and **unlocking new climate investment** opportunities, **IDA countries need to continue to push for progress.**
- IDA Diagnostic Assessment has demonstrated that leading countries have been able to overcome challenges to develop strong and sophisticated sustainable finance frameworks, but **they face additional challenges** in implementing sustainable finance frameworks. **Further action** and **additional international support** are needed.
- **Investors and DFIs can enable new and innovative investment opportunities** in emerging and developing financial markets, while **helping countries achieve their green and development ambitions.**
- The **SBN network can provide invaluable support** in assisting IDA members develop sustainable finance frameworks that **address the E&S challenges, de-risk investment** and **unlock green finance** at scale.



Sustainable
Banking
Network

“Low-income countries are finding that sustainable development is not a choice, but a necessity. Leading practices that reduce environmental & social risk in the financial sector and unlock new investment opportunities offer a powerful pathway to build financial stability and attract investment.”

***- Georgina Baker,
Vice President of IFC & Chair of SBN Secretariat***

The SBN members have shown that it is possible to unite public and private financial sectors from a wide array of countries and achieve significant progress in sustainable finance at an accelerated rate, better positioning the world to achieve the SDGs by 2030.



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