



SBFN SUSTAINABLE FINANCE INSTRUMENTS WORKING GROUP

Terms of Reference (TOR)

February 2022

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I. ABOUT THE SUSTAINABLE BANKING AND FINANCE NETWORK (SBFN)

The Sustainable Banking and Finance Network (SBFN) (<https://www.sbfnetwork.org/>) is a voluntary community of financial sector regulators, central banks, ministries of finance, ministries of environment, and industry associations from emerging markets committed to advancing sustainable finance for national development priorities, financial market deepening, and stability. Members' approaches draw on international good practices while reflecting national contexts and priorities. IFC is SBFN's Secretariat and knowledge partner, assisting members to share knowledge and access capacity building to support the design and implementation of national sustainable finance initiatives.

As of February 2022, **SBFN comprises 70 member institutions representing 47 countries** and approximately US\$43 trillion (86 percent) of the total banking assets in emerging markets. Having started with a focus on the banking sector, SBFN now covers all parts of the financial sector, including capital markets. Of the 70 members, **three are regional organizations from Latin America**: the Federation of Latin American Banks (FELABAN); Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO); and the Association of Supervisors of Banks of the Americas.

SBFN members are committed to moving their financial sectors towards sustainability, with the twin goals of i) improved risk management and governance of environmental, social, and governance (ESG) factors by financial institutions (FIs) — including management and disclosure of climate risks, and ii) increased capital flows to activities with positive environmental and social impact, including climate change mitigation and adaptation. For more information, visit <https://www.sbfnetwork.org/>

II. INTRODUCTION

The following Terms of Reference (TOR) sets out the purpose, scope, structure and work plan of the SBFN member-led Sustainable Finance Instruments Working Group (SFI WG), which builds on the work of the former Green Bond Working Group (See Annex 2 for more information).

The **Sustainable Finance Instruments Working Group** recognizes the fast-evolving and expanding trend in new types of financial instruments and products that address climate change and the Sustainable Development Goals (SDGs). It aims to facilitate dialogue and collaboration among SBFN



members to promote sustainable finance instruments to achieve national development objectives in emerging markets. It will also act as a convening platform and voice for emerging markets in global dialogues for sustainable finance development, including the G20 Sustainable Finance Working Group, the Network for Greening the Financial System (NGFS), and the International Platform on Sustainable Finance.

This **evolving TOR** will inform the activities and deliverables of the Working Group between December 2021 and February 2023 and will be adapted in response to member discussion and feedback.

III. PRIORITIES FOR THE NEXT PHASE OF WORK

The COVID-19 pandemic has posed unprecedented challenges to financial development worldwide. It has also forced countries and the private sector to rethink their development patterns and investment practices as they seek to build more resilient, green, and inclusive economies. The global community has collectively embraced the SDGs and the Paris Agreement on Climate Change and has acknowledged the central role of the private sector in achieving them. Data from various sources show that sustainability-focused bonds, debts, projects, funds, and indexes outperformed the market during this crisis.

In the past year, there has also been a steady rise in other types of sustainability-focused instruments, such as social bonds, gender bonds, and sustainability-linked bonds and loans, being introduced across all SBFN regions. Transition finance is another new and popular topic. SBFN members are committed to leveraging green and sustainability-focused capital flows for economic recovery and development. They are looking for tools and instruments to unlock the trillions of dollars in green, social, and climate-related investment opportunities in emerging markets (see Annex 1).

In this context, a growing number of SBFN members have identified the development of **national sustainable finance taxonomies** as an essential tool to define and evaluate projects, assets, and activities that qualify as green, socially inclusive, and sustainable (See Annex 3). Clear definitions are crucial in mobilizing financial flows into sectors that have positive environmental and social impacts, and for ensuring that projects meet national environmental, social, and governance (ESG) risk management standards.

Consequently, SBFN has established the Sustainable Finance Instruments Working Group to convene members and leading global partners to

- *Capture the experiences of SBFN countries in developing markets for sustainable finance instruments, with an initial focus on the development of national taxonomies for sustainable finance, and*
- *Convene interested SBFN members in a dialogue on how to package these case studies and emerging best practice for the benefit of the wider SBFN community.*

Additional elements to consider for the current and future phases of work include:

- Interoperability of taxonomies across different jurisdictions
- Potential convergence in terms of common principles
- Stimulating pipelines for sustainable finance
- Innovation in different types of instruments and financing structures
- Effective regulations to support sustainable finance markets
- Use of incentives



- Ensuring credibility in the market
- Requirements for External Review and Second Party Opinion
- Monitoring, reporting, and verification (MRV)
- Tracking and data collection on the part of regulators
- Supervision.

Key international initiatives and agencies involved in sustainability-focused finance and taxonomy development will be invited to be part of the Working Group as experts. These include representatives from

- International Capital Market Association (ICMA)
- Loan Market Association (LMA)
- G20 Sustainable Finance Working Group
- International Platform on Sustainable Finance / European Commission
- Network for Greening the Financial System (NGFS)
- Bank for International Settlements
- Green Climate Fund (GCF)
- UN Sustainable Stock Exchanges Initiative (UN SSE)
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
- Climate Bonds Initiative (CBI)

Other international agencies may be included as needed.

IV. PROCESS, TIMELINE, AND DELIVERABLES

SBFN published its [3rd Global Progress Report](#) in October 2021, representing the most comprehensive benchmarking of national sustainable finance initiatives across emerging markets. As part of the data collection for the 2021 report, SBFN member countries provided detailed information on national activities under the pillar “Financing Sustainability”. This includes the development of markets for green, social, and sustainability-focused financial instruments. The Sustainable Finance Instruments Working Group was officially announced during the launch webinar for the Global Progress Report on November 2nd. As a starting point it will leverage the Global Progress Report data collection and country case studies.

Based on this data and initial case study research, a first meeting of the Working Group is proposed for February 2022 to

- Gather inputs from SBFN members and international experts on the proposed work plan and priorities;
- Share initial research and global updates on the global taxonomy trend as it relates to emerging markets;
- Capture insights and identify potential case studies from SBFN members on their national and regional experiences with regard to taxonomy development as part of a broader strategy to promote sustainable finance;
- Capture key questions and challenges facing SBFN members in developing and implementing taxonomies;
- Discuss opportunities for members to collaborate on common tools and approaches.



Two phases of work:

The planned work will be conducted in 2 phases:

- Stage 1: Global Benchmarking (January 2022 — May 2022): Mapping of the current status and lessons learned from national, regional, and global taxonomy development, utilization, governance, and diversification, with a focus on SBFN countries.
- Stage 2: Toolkit Development (June 2022 – October 2022): Developing a practical roadmap, case studies, and common approaches that emerging markets can leverage to develop and maintain their sustainability-focused taxonomies.

Activities

The following activities are proposed in 2021 and 2022:

ACTIVITY	TIMEFRAME
1 st meeting of Co-Chairs	December 2021 (completed)
1 st meeting of the Sustainable Finance Instruments Working Group to discuss proposed work plan, priorities, and approach to mapping research.	February 2022
Map the current status and lessons learned from national, regional, and global taxonomy initiatives in emerging markets — including taxonomy governance — with a focus on SBFN countries.	January 2022 — May 2022 (in process)
2 nd meeting of the Sustainable Finance Instruments Working Group to reflect on the finalized mapping research and give input on the development of a practical roadmap and/or toolkit.	April 2022 during SBFN Global Meeting – 26-28 April
2 nd meeting of Co-Chairs to review inputs from members during April meeting and provide guidance on next phase.	May 2022
Develop a practical roadmap, toolkit, and/or training on common approaches that emerging market countries can adopt to develop and govern their sustainability taxonomies that both further their national economic/development goals and align with international standards/good practice.	June 2022 – October 2022
3 rd meeting of the Co-Chairs to review draft roadmap, toolkit, and /or training and provide guidance to finalize outputs.	October 2022
3 rd meeting of the Working Group to review and approve final roadmap, toolkit, and /or training.	November 2022
Launch of roadmap, toolkit, and /or training.	November 2022



V. MEMBERSHIP

Incoming Sustainable Finance Instruments WG membership

The incoming Co-Chairs of the WG are the Indonesia Financial Services Authority (OJK), the National Treasury of South Africa, and the Latin American Banking Federation (FELABAN). The following table indicates incoming WG members as indicated by a survey of members in September 2020.

Region	Country	Organization
Asia & Pacific	Bangladesh	Bangladesh Bank
	Cambodia	The Association of Banks in Cambodia
	China	China Banking Association
	Fiji	Reserve Bank of Fiji
	Indonesia	Financial Services Authority (OJK) (Co-Chair)
	Maldives	Maldives Monetary Authority
	Mongolia	Mongolian Sustainable Finance Association
	Philippines	Central Bank of Philippines
	Samoa	Central Bank of Samoa
	Sri Lanka	Central Bank of Sri Lanka
	Vietnam	State Bank of Vietnam
Eastern Europe and Central Asia	Kyrgyz Republic	The Union of Banks of Kyrgyzstan
	Serbia	Association of Serbian Banks
	Ukraine	National Bank of Ukraine
National Securities and Stock Market Commission of Ukraine		
Latin America the Caribbean	LAC	Latin American Banking Federation (FELABAN) (Co-Chair)
	Colombia	Asobancaria
		Financial Superintendence of Colombia (SFC)
	Costa Rica	Costa Rica's General Superintendence of Financial Institutions
	Honduras	National Commission of Banks and Insurance (CNBS)
	Panama	Central Bank of Panama
	Paraguay	Central Bank of Paraguay
Sustainable Finance Roundtable of Paraguay		
Middle East & Africa	Egypt	Central Bank of Egypt
	Iraq	Central Bank of Iraq
	Morocco	Moroccan Capital Market Authority (AMMC)
	Nigeria	Central Bank of Nigeria
	South Africa	The Banking Association South Africa
	South Africa	National Treasury South Africa (Co-Chair)

VI. ROLES & RESPONSIBILITIES

As SBFN Secretariat and knowledge advisor, IFC is responsible for the administration of the Working Group, including

- Convening Working Group meetings (in person and virtually)
- Collecting and sharing relevant materials required for informed input and deliberation by Working Group members
- Implementing decisions taken by the WG



- Providing regular updates on Working Group activities to i) Working Group members and ii) the SBFN wider network

Working Group members commit to

- Provide guidance on the strategic direction of the Working Group to achieve outcomes that are aligned with member needs and experiences;
- Participate in Working Group meetings;
- Share their country information and lessons learned;
- Review background materials;
- Provide expert and technical input to the Working Group discussions;
- Review and provide input to various drafts of the Working Group outputs; and
- Represent SBFN and share the Working Group findings at conferences and similar events.

Recognizing that members have different availability, interest, and expertise related to SBFN's different working groups. The following additional categories of participation have been proposed:

<p><i>Co-Chairs</i> <i>(Rotate every few years)</i></p>	<ul style="list-style-type: none"> • Represent one of the SBFN regions and membership categories (e.g., regulator, banking association, and/or capital market authority) • Guide the WG's work and provide technical expertise during and between working group meetings • Contribute deep expertise thanks to country, regional, and/or institutional leadership on the topic • Be a spokesperson for the WG and support external communication and knowledge sharing efforts • Review strategy and outputs to ensure alignment with member needs and experiences and the goals of the WG.
<p><i>Members/Observers</i></p>	<ul style="list-style-type: none"> • Participate in WG meetings • Review and contribute to WG case studies • Participate in WG webinars • Provide expert peer review to strategy, outputs, documents, and processes • Support the WG dissemination efforts

VII. CONTACTS

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ANNEX 1 — SUSTAINABLE FINANCE OPPORTUNITIES IN EMERGING MARKETS

Amid the pandemic, SBFN countries have continued to be at the forefront of the new trend towards creating sustainable financial markets, with many exploring opportunities to leverage green finance as part of recovery plans. Sustainable finance – both in terms of risk management and new investment opportunities – has been recognized as more important than ever to help countries rebuild and become more resilient.

The IFC 2016 report, [“Climate Investment Opportunities in Emerging Markets: An IFC Analysis”](#), identified \$23 trillion in investment opportunities in 21 emerging economies, based on those countries’ Nationally Determined Contributions (NDCs) under the Paris Climate Agreement. [A subsequent study in 2018](#) found that key cities in emerging markets have the potential to attract more than \$29.4 trillion in cumulative climate-related investments in six key sectors by 2030: namely, waste, renewable energy, public transportation, water, electric vehicles, and green buildings.

Green bonds have so far led the way in unlocking these investments. According to a [2021 IFC-Amundi report](#), green bond issuance in emerging markets in 2020 was robust, with 174 green bonds amounting to \$40 billion in issuance from 101 issuers. This represents 14 percent of global issuance in 2020. Seven emerging markets issued green bonds for the first time to achieve commitments under the Paris Agreement.

SBFN member countries are the main contributors of global green bond issuance in emerging markets. As of December 2020, the seven SBFN member countries in the **Asia-Pacific region** had issued green bonds valued at **\$146 billion**, or 66% of all green bond issuance in the region. In the **Africa region**, the six SBFN member countries had issued green bonds totalling **\$3.924 billion**, or 99% of all the green bond issuance in the region. In the **Latin American region**, the ten SBFN member countries had issued **\$21.47 billion** in green bonds, or 98.7% of all the green bond issuance in the region.

ANNEX 2 — ABOUT THE SBFN GREEN BOND WORKING GROUP

Established in 2017, the Green Bond Working Group responded to SBFN members’ interest in the global green bond trend and associated market opportunities. Up to September 2020, the WG comprised representatives from 19 countries and regions and was chaired by the Indonesia Financial Services Authority (OJK), the Latin American Banking Association (FELABAN), and the Moroccan Capital Markets Authority (AMMC).

In 2018, under the leadership of WG members and in partnership with the Climate Bonds Initiative (CBI), the WG published the report [Creating Green Bond Markets – Insights, Innovations, and Tools from Emerging Markets](#), which included [country case studies](#), and a [green bond market development toolkit](#). The knowledge base from these activities has been used widely and has informed IFC country support to Bangladesh, Colombia, Georgia, Mongolia, South Africa, and Vietnam, among others.

The 2018 “Creating Green Bond Markets” report drew on i) a survey of SBFN members, ii) case studies and research collected by SBFN and CBI, as well as iii) findings from SBFN’s first [Global Progress Report \(2018\)](#). It captured SBFN members’ diverse experiences and the latest insights at the



time into the drivers, challenges, and innovations involved in the creation of green bond markets in emerging markets.

Responding to requests from SBFN members, and based on member experiences, the report offered the first ever Green Bond Market Development Toolkit, which included

- A set of Common Objectives
- A Self-assessment and Planning Matrix that enables policymakers to evaluate their plan of action on 4 pillars of capital market development: Market infrastructure, Guidance, Issuance, and Capacity building
- A Roadmap with Common Milestones
- A Capacity Building Needs Assessment with a mapping of existing international training and resources.

The Toolkit aimed to assist SBFN members to more effectively plan their national green bond development strategies and collaborate with other market actors.

In addition, one of the key findings of the report was that “clear country-level guidance is proving essential for enabling local green bond market development. It performs the following functions:

- i) Aligning local green bond issuance with national climate and infrastructure targets, thus contributing to the country’s sustainable development agenda;
- ii) Maintaining market integrity by ensuring high standards of transparency, independent review, ESG risk management, and ongoing monitoring and reporting;
- iii) Enabling targeted policy support for low-carbon and green bond issuance by clarifying what categories and types of projects qualify as “green”, and
- iv) Enabling green finance markets to scale by reducing transaction costs.”

ANNEX 3 — TAXONOMY TRENDS IN SBFN COUNTRIES

SBFN’s [2021 Global Progress Report](#) found that 16 SBFN countries have introduced or are developing green or sustainability-focused taxonomies to provide much-needed clarity on eligible activities, sectors, and assets for sustainable finance. Six countries — Bangladesh, Brazil, China, Indonesia, Mongolia, and Vietnam — include **detailed criteria and performance requirements for eligible assets**. Colombia, Dominican Republic, Georgia, India, Mexico, South Africa, and Sri Lanka are at various stages of developing such taxonomies.

These taxonomy systems are tailored to national priorities and usually have some fundamental principles and safeguards, such as Mongolia’s “6 Principles for the Green Taxonomy Frameworks” and Brazil’s “Explanatory Guide for Green Taxonomy”. New principles introduced in the European Union’s Sustainable Finance Taxonomy — such as Do No Significant Harm and protection of social safeguards — are influencing emerging markets.

There is also some expectation of periodic updates. For example, China has updated its “Green Bond Endorsed Project Catalogue” twice since its publication in 2015, and Indonesia published its updated taxonomy in January 2022.



At regional level, the ASEAN (Association of Southeast Asian Nations) Capital Markets Forum introduced a regional sustainable finance taxonomy in November 2021 and IFC is working with the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO) to support a regional approach to taxonomy development alongside other sustainable finance initiatives.

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. Social taxonomies and principles to define transition finance are also emerging. Georgia and India are developing social taxonomies alongside their green taxonomies. 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.

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