

NECESSARY AMBITION:

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

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Report Factsheet

Need and opportunity

- Globally, **over 700 million people** are living in extreme poverty with **less than \$1.9 per day** (2011 PPP).
- 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 **COVID pandemic will push 49 million people into extreme poverty** in 2020.
- IFC estimates **US\$29 trillion in climate investment opportunities** in six urban sectors in emerging markets cities until 2030. It also estimates that emerging market banks need to increase the share of climate lending in their portfolios from **7% in 2018 to 30% in 2030** to mobilize the necessary financing for these green finance investment opportunities.
- Established in 2012, SBN members now represent **39 countries, representing \$43 trillion, or 86% of banking assets** in emerging markets. This makes them well placed to shift financial sector practices to support sustainability objectives and increase competitiveness.

About the SBN IDA¹ Task Force

- This Task Force was established in 2018 under the SBN Measurement Working Group to provide targeted assessment of and support to sustainable finance development and implementation in SBN IDA countries.
- This Task Force is comprised of 11 countries, and co-chaired by Mongolia Bankers Association and Central Bank of Nigeria. The member countries are Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Nigeria, and Pakistan.

About the Report

- The SBN IDA Report, [*Necessary Ambition: How Low-Income Countries Are Adopting Sustainable Finance to Address Poverty, Climate Change, and Other Urgent Challenges*](#), along with eight country profiles, was launched on June 22nd, 2020.
- Responding to the request from its IDA members, SBN undertook a diagnostic study to understand the unique challenges and opportunities low-income countries face in adopting sustainable finance at market level.
- The report builds on research undertaken for the SBN 2019 Global Progress Report. It goes further to explore **how SBN IDA countries can boost sustainability** within specific areas and pursue broader development goals as they develop sustainable financial systems.
- In-depth research focused on **8 SBN IDA countries: Bangladesh, Cambodia, Ghana, Kenya, the Kyrgyz Republic, Mongolia, Nepal, and Nigeria**. A separate Country Profile has been developed for each.

¹ IDA stands for the International Development Association (www.worldbank.org/ida), an international financial institution under the World Bank Group that offers concessional loans and grants to the world's poorest developing countries.

- The overall findings reflect insights from
 - **A diagnostic survey and follow-up interviews** with SBN IDA members;
 - **16 case studies**; and
 - Detailed analysis of trends, lessons learned, and innovations in the sustainable finance journeys of **eight SBN IDA countries**
- The report focuses on four specific priorities that have been identified by members as they connect sustainable finance with broader development ambitions: **environmental and social risk management (ESRM) by financial institutions, green finance, financial inclusion, and agriculture & SME finance.**
- The report also proposes **a set of tools to support decisions in developing and implementing sustainable finance roadmaps.** These reflect the practical solutions and innovative approaches tested by IDA countries to develop and implement sustainable finance frameworks in constrained environments. These recommendations can be **applied not only by SBN IDA countries but also by other SBN members** across emerging markets.
- The report confirms the continuous and significant progress made by the poorest countries among the SBN network. It also testifies that **building sustainability into financial systems not only helps manage environmental, social, and climate risks, but also de-risks markets to enable greater investment flows and deepened financial market development.**

Key Findings of the SBN IDA Diagnostic Assessment Survey

- SBN low-income country members have demonstrated **high levels of ambition and good progress in developing sustainable finance**, despite facing **unique constraints** due to the size and maturity of their markets.
- Sustainable finance has emerged as a pathway for IDA countries **to de-risk investments and enable the financial flows** needed to support climate action and sustainable development. SBN IDA countries recognize that transitioning to sustainable financial systems is critical to their futures.
- **National commitments and pressing environmental and social challenges** have been the **key drivers** for sustainable finance initiatives in SBN IDA countries.
- SBN IDA countries typically select one of **two paths in the initial development of national sustainable finance frameworks: regulator-driven and industry-driven.** Over time there is also a tendency to converge towards public-private partnership to support sustained implementation.
- Despite different paths, SBN IDA members have faced strikingly **similar challenges** on their journeys but have responded creatively to overcome them. These include
 - Capacity constraints within financial institutions
 - Limited national expertise to lead and inform the sustainable finance process
 - A failure by banks to recognize the value of sustainability and prioritize sustainability over short-term profits
 - A wariness among banks of additional regulatory burdens from aligning with sustainable finance frameworks.
- SBN IDA members' **top priorities for future action are i) promoting green finance**, such as green bonds and green loans, ii) developing sustainable finance roadmaps, and iii) supporting implementation.
- Key ongoing challenges include **capacity building** and **creating a supportive enabling environment.**

- These key findings are also reflected in the in-depth analysis of the **eight country profiles**.

Lessons to support implementation in the Four Priority Areas

- The report offers lessons learned in the four priority areas identified by members:
 - **environmental and social risk management (ESRM) by financial institutions**
 - **green finance**
 - **financial inclusion, and**
 - **agriculture & SME finance.**
- The good practices in these key areas are supported by **16 case studies** from IDA countries.
- Lessons for developing and promoting **ESRM by financial institutions**:
 - Draw on international resources and experience.
 - Stakeholder engagement can help create a policy that is adapted and accepted.
 - Build an ESRM policy over time to enable stakeholders to adapt progressively.
- Lessons learned for promoting **green finance**:
 - Plan for broad stakeholder engagement to help create well-tailored policies, definitions, and standards.
 - Support banks with additional guidance to build capacity.
 - Draw on international support and resources where possible.
- Lessons learned for **integrating sustainable finance and financial inclusion**:
 - Integrate supply-side measures alongside sustainable finance mandates to boost support for financial inclusion.
 - Combine outreach, communication, and education efforts for sustainable finance with efforts to increase financial literacy and awareness.
- Lesson learned for **integrating sustainable finance and agriculture & SME finance**:
 - Set minimum investment targets or targeted credit schemes to promote green activities within the agricultural and SME sectors.
 - Leverage sustainable finance initiatives to upgrade key systems and implement initiatives to support financing to key sectors.
 - Integrate sustainability into traditional support approaches for SMEs.

Initial Tools for Sustainable Finance Development and Implementation

- A set of **initial high-level planning tools** were developed based on the findings of the SBN IDA Country Diagnostic Assessment and the Eight Country Profiles. They reflect solutions and **approaches tested by IDA countries** to develop and implement sustainable finance frameworks.
- These recommendations **can be applied not only by SBN IDA countries, but also other SBN members and all emerging economies** looking to develop sustainable finance frameworks and embed them in national financial systems.

- The initial tools include:
 - **Six best practices for developing sustainable finance** in IDA countries;
 - **Common stages and steps for developing and implementing** sustainable finance frameworks; and
 - **Best practice solutions to overcome common challenges** related to developing and implementing sustainable finance framework.

Next Steps

- The experiences of SBN IDA countries suggest that international organizations can provide invaluable support in assisting SBN IDA members develop sustainable finance frameworks that address the environmental and social challenges these countries face.
- **SBN IDA countries** have made significant progress, but there is still more to do:
 - Further action and additional international support are needed to de-risk investment and unlock green finance at scale.
 - The leading countries have been able to overcome challenges to develop strong and sophisticated sustainable finance frameworks, but they face additional challenges in implementation.
 - Sustainable finance frameworks should address broader environmental and social challenges. Additional support, guidance, and incentives should also be provided to drive adoption by financial institutions.
 - The ambition to develop sustainable finance frameworks in IDA countries presents an opportunity for SBN IDA countries to become global leaders in integrating sustainability into financial systems and to unlock new investment flows.
- Building on the tools and case studies developed for this report, the **SBN IDA Task Force** could develop additional technical resources to support SBN IDA members.
 - Provide targeted capacity building and technical assistance to SBN IDA members to help them develop and implement sustainable finance frameworks.
 - Develop additional technical resources, including guidance and templates, sensitization and training materials, a common roadmap, and tools and resources for key priorities.
 - Undertake targeted and in-depth research into the challenges and priorities identified by SBN IDA members.

About SBN

The Sustainable Banking Network (www.ifc.org/sbn), or SBN, is an IFC-supported knowledge network of financial regulators, central banks, and banking associations from emerging markets that are committed to adopting sustainable finance at market level. Eight years since its establishment, SBN has grown into a major force for sustainable finance. The network's members now represent 39 countries and \$43 trillion (86 percent) of the banking assets in emerging markets. SBN members are committed to moving their financial sectors towards sustainability, with the twin goals of improved ESG risk management, including disclosure of climate risks, and increased capital flows to activities with positive climate, environmental, and social impact.

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.

For report related inquiry, please contact [SBN Secretariat@ifc.org](mailto:SBN_Secretariat@ifc.org).