

Summary of Highlights

2016 International Sustainable Finance Forum
& 4th Annual Meeting of the Sustainable Banking Network (SBN)
Bali, Indonesia - December 1 & 2, 2016

I. EVENT OVERVIEW

The 2016 International Sustainable Finance Forum, which included the 4th annual meeting of the Sustainable Banking Network (SBN), was jointly organized by IFC, the World Bank Group, and OJK, the Indonesia Financial Services Authority, on December 1 and 2 in Bali, Indonesia.

The first Forum was jointly convened by IFC and the China Banking Regulatory Commission in Beijing in 2012, where the idea for SBN was proposed by the 10 attending banking regulators. Since then, SBN annual meetings have been convened jointly by IFC with the Central Bank of Nigeria in Lagos, Nigeria, in 2014; and with the Peru Superintendency of Banking, Insurance and Private Pension Funds (SBS) in Lima, Peru, in 2015.

In this time, SBN has grown into the global knowledge and capacity building network of emerging markets' financial regulators and banking associations advancing sustainable finance. The Network now represents 31 member countries¹ and 85% of emerging markets banking assets, with 13 out of the 31 SBN member countries having launched sustainable finance policies or voluntary principles aligned with international good practice. (Please see annex for latest SBN membership map. For additional information, please visit www.ifc.org/sbn).

With more than 300 participants from approximately 30 countries, this year's event brought together banking and financial regulators, banks, and international organizations active in the space of sustainability and climate finance. The Forum focused on global sustainable finance trends and new developments, as well as national experiences in mobilizing private sector financing to promote sustainable development.

The Forum was held over two days to address different themes and levels of dialogue.

DAY 1

The first day consisted of a plenary session with speakers and participants from approximately 30 countries, representing different perspectives on sustainable finance from central banks, industry associations, financial institutions, civil society and academia.

Panel discussions addressed 4 topics: i) the global sustainable finance trend and experience to date, ii) ESG integration in financial market operations, iii) sustainability disclosure, and iv) green bonds and green financing products.

¹ Argentina, Indonesia, Bangladesh, Brazil, Cambodia, Chile, China, Colombia, Ecuador, Egypt, Ghana, Honduras, India, Lao PDR, Jordan, Kenya, Mexico, Mongolia, Morocco, Nepal, Nigeria, Pakistan, Panama, Paraguay, Peru, the Philippines, South Africa, Sri Lanka, Thailand, Turkey and Vietnam.

Day 1 also celebrated the progress of the Indonesia sustainable finance initiative championed by OJK, and recognized 8 Indonesian banks as first-movers.

Under the championship of OJK and with SBN support, an ASEAN Roundtable on Sustainable Finance was organized on the same day to kick off regional collaboration.

DAY 2

The second day was dedicated to a smaller group discussion among current and potential SBN members, partners and affiliated organizations.

A number of regional conversations and bi-lateral meetings also took place to facilitate knowledge sharing, networking and partnership building.

II. HIGHLIGHTS FROM THE DISCUSSIONS

DAY 1: 2016 INTERNATIONAL SUSTAINABLE FINANCE FORUM

Day 1 consisted of four panel discussions on emerging topics in sustainable finance.

PANEL 1: The Future of Sustainable Finance – Innovation and Collaboration

Panelists shared perspectives on the international and national context and drivers for sustainable finance, including the Sustainable Development Goals (SDGs), the Paris Agreement on Climate Change, and national sustainable development strategies, and discussed policy tools and international experience available to help mobilize the private sector as a key contributor to sustainable development. The following high-level insights emerged:

- There is a huge gap in financing to meet green growth needs globally and the private sector needs to be mobilized to fill the gap. Banks are part of the solution, but the entire financial system also needs to be mobilized, including insurance, capital markets and institutional investors.
- A package of policy frameworks and market actions is needed to develop the market for sustainable finance. This could include government signaling and guidance to help develop the market, as well as efforts to build capacity. Examples include experiences of China and Indonesia financial regulators in developing guidelines to promote sustainable finance and frameworks for green bonds. Other proposed elements include improved sustainability disclosure by financial institutions and the private sector, mandatory liability insurance, carbon markets, and green credit funds.
- Cross-border collaboration is playing an important role in addressing regional challenges, such as the cooperation between ASEAN countries around haze pollution and climate change risks of small islands. In Latin America, in partnership with SBN, the regional banking association, Felaban, is creating awareness to stimulate competition and collaboration between banks on sustainable finance and also looking to measure progress.

PANEL 2: Mainstreaming Environmental, Social and Governance (ESG) into Business Operations

This session looked at how ESG considerations can be integrated into financing operations by banks. A changing business environment, which calls for greater consideration of ESG factors, as well as the business case for ESG integration at private sector institutional level, were recognized by all panelists as drivers. Panelists also identified key challenges, including consistency in implementation, capacity to implement, availability of data on the ESG performance of institutions, and consistency across international and national requirements.

Different perspectives were presented, including that of banking industry regulators from China and Mongolia; Japan's Mizuho Bank, which has adopted international voluntary principles such as the Equator Principles; BRI, the Indonesian bank, which has become a local champion in implementing national initiatives, such as the OJK Sustainable Finance Roadmap; and development finance institutions, which have been setting global ESG standards, such as IFC.

- Regulators from China and Mongolia shared experience and plans to call on banks to integrate ESG considerations into lending operations. While fully recognizing the challenges, such as creating synergy among regulators and banks and the enormous need for awareness raising and capacity building, regulators reported gradual change in awareness and behavior among banks.
- As an example, having started this journey 10 years ago, Chinese banks have moved from skepticism to greater awareness of the importance of ESG. Banks are addressing ESG issues on three levels: i) avoiding energy-intensive manufacturing as part of business strategy, ii) building environmental and social risk assessment into their procedures, and iii) investing in staff capacity.
- In Mongolia, the voluntary sustainable finance principles were launched in 2014, led by the banking association. Banks are starting to report on implementation status. The central bank of Mongolia collaborates with other ministries and is interested in moving towards a mandatory sustainable finance policy.
- BRI is a leading local Indonesian bank in terms of sustainable finance. ESG is integrated into its asset allocation strategy and vision, and BRI considers this as helping it achieve above average financial performance in comparison with the Indonesia banking industry. For BRI, ESG integration focuses on supporting financial inclusion in rural Indonesia, which involves working with its predominantly SME clients on environmental compliance and towards positive impact on communities.
- The Equator Principles, referencing the IFC Performance Standards and the World Bank Group Environment, Health and Safety Guidelines, are known as the gold standard in environmental and social risk management. 88 member in 37 countries around the world have signed up to the Principles. For financial institutions adopting the Equator Principles (EPFIs), commitment, procedures and reporting are critical when it comes to integrating ESG into mainstream activities. The Equator Principles allow EPFIs to manage E&S risks consistently and systematically in different countries and also make it possible to go into high-risk projects with all the tools to better manage E&S risks.
- IFC is committed to managing triple-bottom-line performance and has developed the IFC Performance Standards over two decades. For IFC, there were hard lessons learned in the past from projects where ESG issues weren't properly addressed. IFC studies show a correlation

between ESG and financial performance of clients, including higher IRR of sustainability leaders. IFC client surveys have also shown unanimous client responses confirming perceived long-term value of ESG integration.

PANEL 3: Disclosure for Sustainability

Disclosure of non-financial risks, including ESG and climate risks, enables investors to take sustainability into consideration in investment decision making. This session pulled together experience from Indonesia, South Africa, the Netherlands, and IFC. Panelists confirmed the business case for improved measurement and disclosure, and discussed their respective institutional or market-level experience with different sustainability disclosure principles, including voluntary initiatives, local mandatory ones and the emerging climate risk reporting. The roles of central banks and stock exchanges were explored, including the creation of a level playing field, building awareness, providing guidance, and creating incentives, such as through indexes and benchmarking, where the market driver is not sufficient.

- Sustainability disclosure is an important element of managing E&S and climate risks, and could help improve companies' access to capital. Investors are willing to pay a premium for companies that perform better on ESG because they are less risky to the environment, communities and the investor. Indonesia's Kehati Index, a sustainability index, was presented as an example of a sustainability index that has consistently outperformed the market, pointing to a premium associated with sustainable businesses. IFC's experience is that its own high standards of disclosure and transparency strengthen its capacity to raise funds from global capital market.
- Reporting and disclosure requirements, even on an apply-or-explain basis, could drive private sector players to take action and put in place necessary ESG strategies and policies. There has been significant uptake of the Global Reporting Initiative (GRI) international standard for sustainability reporting, the Sustainability Accounting Standards Board (SASB) guidance on material issues, as well as the new trend in Integrated Reporting. The Financial Stability Board has also started to look into climate disclosure for financial institutions.
- South Africa is at the forefront of requiring disclosure from companies about their impacts on society and the environment, as well as corporate governance. The Johannesburg Stock Exchange's listing requirements call for all organizations to publish Integrated Annual Reports, including financial as well as non-financial aspects of business performance. South Africa's National Treasury is now looking at developing a national sustainable finance strategy.
- Recognizing the role of climate risks in economic development and financial sector stability, the Central Bank of the Netherlands (DNB) has taken an active role in the past year to promote greater awareness in the Dutch financial sector – including banks, pension funds, and insurers – about the carbon asset risks in investment and lending portfolios. DNB has also called for a transition to a low-carbon economy. A major challenge is data collection, as financial institutions all use their own classification codes. Central banks could introduce data collection templates to effectively monitor performance and manage climate risks.
- For IFC, disclosure is part of its commitment to good governance and an important aspect of good E&S risk management. All IFC's investments are subject to ESG risk assessment. Summaries are published of the key ESG issues associated with a particular transaction, as well as an agreed action plan that will be monitored throughout the life of the project. This is key to

transparency with IFC's stakeholders. Having this level of information available also makes it easier for IFC to raise funds in the global market.

PANEL 4: Green Financing, Green Bonds – Trends and Innovation

This session discussed the challenges, opportunities and business case for green financing, and looked in particular at the new and rapidly growing trend in green bond issuance as a means of scaling sustainable finance.

- There is evidence of growing investor interest and demand for green bonds. The green bond market more than doubled in the last year. Most of what can be done to mitigate and adapt to climate change can be designed as investable projects. Green bonds could meet short-term return requirements and address long-term issues. Banks are primary aggregators of green projects in the market. National green investment strategies are also needed.
- The Green Bond Principles (GBP) define what kinds of investments and assets qualify as “green” and combine different market participants: issuers, investors and underwriters. The Principles are updated every year based on multi-stakeholder consultation. They address barriers by covering i) use of proceeds, ii) project evaluation, iii) management of the proceeds, and iv) annual reporting and disclosure on projects and use of proceeds. GBP strongly encourages third-party certification.
- Some barriers still exist in terms of scaling the green bond markets globally. Key challenges include knowledge among financial institutions about green bond opportunities, pricing of green bonds for investors, transparency on use of proceeds, creating the right regulatory framework, and foreign exchange and tax hurdles for international investors. A number of international bodies, including the GBP, Green Climate Fund and IFC are working on those barriers by developing standards, providing technical assistance, and introducing tools and instruments.

PARALLEL SESSION: ASEAN Roundtable for Sustainable Finance

Representatives from the Association of Southeast Asian Nations (ASEAN) met to discuss a joint approach to sustainable finance for the region. Led by Indonesia, the initiative builds on the successful experiences of SBN to facilitate collaborative innovation around sustainable finance. The session was attended by representatives from 8 of the 10 ASEAN countries: Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

Discussions focused on ensuring that sustainable finance is on the agenda of the meetings among ASEAN leaders of Central Banks and Ministries of Finance in 2017. One of the immediate actions is for OJK to officially communicate consensus reached at the roundtable to Ministries of Finance and Central Banks of ASEAN countries and suggest inclusion of the sustainable finance topic in the ASEAN agenda. All delegates will report back internally and prepare their respective organization to discuss sustainable finance for the next ASEAN meeting when it is raised.

Delegates also agree to explore regional capacity building for banking regulators and banks, including through the ASEAN Bankers Associations.

DAY 2: 4TH ANNUAL MEETING OF SUSTAINABLE BANKING NETWORK (SBN)

Day 2 provided an opportunity for dialogue among SBN members and international partners to share latest developments at country and regional level, to identify common challenges and priorities that require collective efforts, and to brainstorm ideas to further deepen the Network activities.

COUNTRY UPDATES

As of December 2016, 13 SBN members have launched either regulatory guidance or industry-led voluntary principles to promote market-wide adoption of sustainable finance practices. Of these, 7 are banking/financial regulators, including Bangladesh Bank, Brazil Central Bank, China Banking Regulatory Commission, OJK Indonesia, Central Bank of Nigeria, SBS Peru and State Bank of Vietnam. 6 are banking associations from Colombia, Kenya, Mexico, Mongolia, South Africa and Turkey. A number of members are on the way to launch soon, including Ghana, Pakistan, Cambodia, India and Nepal.

Members shared recent progress over the past year and their plans for next steps, A number of common themes emerged, either as key success factors or as new trends and innovation.

- i. National green growth or sustainable development strategies provide important context and drivers for SBN members to take action and for private sector FIs in uptake and implementation. Inter-agency collaboration, including with the environmental regulator, was therefore cited by a number of members as important in reflecting national E&S sustainability priorities in sustainable finance policy development.
- ii. Synergy can be achieved through collaboration between policy initiatives and private sector-led market innovation and leadership. Members shared experiences where policy makers, industry associations and FIs have partnered in the development of policies or principles to transform the financial sector toward sustainability.
- iii. Sustainable finance is achieving a deepening within the banking industry and widening into other segments of the financial markets. In banking, China and Nigeria regulators shared experiences in developing and deploying reporting and monitoring templates as part of banking supervision to help enforce implementation. Going beyond banking, OJK is designing a policy framework that covers not just banking but capital markets and the insurance industry.
- iv. Awareness raising and capacity building continues to be identified as critical in shifting FI mindsets and behavior.
- v. International partners like IFC and donors help channel the needed technical expertise and international good practice to support SBN members.

FUTURE OF THE NETWORK & LAUNCH OF THE MEASUREMENT WORKING GROUP

Participants agreed that the Network has achieved critical mass and called for a deepening of technical work, particularly around development tools, knowledge products, and training to assist members in designing and implementing national initiatives. The Forum discussions confirmed appetite from members for the following activities in particular:

- Creation of different work streams, starting with the member-led Measurement Working Group. Regulators from China, Indonesia and Nigeria shared their experience and views on the design

and deployment of reporting and measurement mechanisms as part of sustainable finance policy frameworks and agreed to guide the working group efforts. The objectives of the working group will be to i) analyze the approaches and indicators currently used to measure sustainable finance adoption and impact; ii) provide options to members in designing nationally appropriate measurement frameworks; and iii) design benchmarking tools to assist members to track progress and compare outcomes. Additional working groups will be explored to focus on topics of common interest.

- Increased support for regional collaboration around learning and capacity building, such as through the partnership with Felaban, the Latin American Banking Federation, and potentially the ASEAN platform. SBN and the Latin American Banking Federation (Felaban) have partnered to facilitate knowledge exchange and capacity building across Latin America on sustainable finance. Felaban brings together banking associations in 19 countries and more than 623 banks and financial institutions in Latin America.
- Expansion of capacity building and peer-to-peer learning programs as well as technical assistance to member countries; and
- Engagement with members to develop robust country case studies and create public good resources. Members expressed strong interest to increase their learning from the experiences of other countries in the Network. Members were also interested in knowledge exchange and alignment around innovative trends such as green bonds and green credit lines, for instance by leveraging common definitions and standards to facilitate a scaling up of sustainable finance across borders.

CONTACT US FOR MORE INFO

The SBN Secretariat will disseminate additional updates and resources in due course. We invite you to share your stories, tools and ideas with us on an ongoing basis.

For more information on SBN, visit www.ifc.org/sbn, or contact Rong Zhang, SBN Global Coordinator at rzhang@ifc.org.