I. Summary

This input paper reviews the experience of the Sustainable Banking Network (SBN), a grouping of banking regulators and associations from 31 emerging markets focused on enabling frameworks for environmentally and socially sustainable lending. From this, it identifies continuing barriers to sustainable banking, as well as critical success factors in the efforts to date. It closes with some options for consideration by the G20 Green Finance Study Group.

This paper has been authored by IFC on behalf of, and as Secretariat for, the SBN. It builds on continuous consultation with SBN members since the Network was founded in 2012, as well as detailed review by SBN members of successive drafts. Additional input, research and peer review has been provided by IFC and World Bank experts.

It is estimated that out of the US$50 trillion in banking assets in emerging markets (about a third of the global banking assets), less than 10% is currently directed to “green” loans or credits. In most emerging markets, the banking sector provides a significant proportion of the total capital available to industries, making it a powerful player in achieving sustainable economic development. A formal definition of sustainable or green banking is still evolving. Current understanding reflects a blend of risk management (screening and managing environmental & social (E&S) risks as part of banks’ decision making processes) and green loan origination (supporting businesses and industries with a positive impact on the environment and society). This paper highlights an emerging positive dynamic of market-based actions and policy leadership being adopted to increase the portion of sustainable businesses and industries in portfolios of emerging market banking institutions.

Five case studies are presented from SBN members who are also G20 member countries: Brazil, China, Indonesia, Mexico, and Turkey. Insights from these case studies are further supported by a comparison matrix (see Annex 1) of sustainable banking evolution in 13 countries, IFC country-level research in 25 emerging markets in the past four years, and IFC’s ongoing work with client banks in emerging markets for the past two decades.

- **BRAZIL** has followed a path of combined voluntary and mandatory approaches to sustainable banking driven by the need for stronger efforts in environmental conservation and to foster sustainable development. Facilitated by the banking association, FEBRABAN, voluntary Green Protocols were first adopted by five Brazilian state-owned banks in 2008 and then by commercial banks in 2009. In 2014, the Central Bank of Brazil (BCB) published a mandatory Resolution 4,327 on Social and Environmental

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Responsibility for Financial Institutions. A 2013 study estimated that 11% of banks’ lending was directed to “new energy” and low-carbon agriculture.

- **CHINA:** China adopted a policy-based approach to sustainable banking to help tackle profound environmental problems and support the transition to a green, inclusive and resilient sustainable growth path. The People’s Bank of China (PBOC), China Banking Regulatory Commission (CBRC), and Ministry of Environmental Protection jointly issued the “Green Credit Policy” in 2007, followed by CBRC’s “Green Credit Guidelines” and a monitoring framework to guide the implementation. At the end of 2015, CBRC’s green credit statistics for the top 21 Chinese banks (accounting for around 80% of total banking assets) show the majority have adopted E&S risk management practices and Green Credit now makes up approximately 10% of these banks’ portfolios. Building on this experience of greening the banking system, the People’s Bank of China (PBOC) is leading efforts to green the whole financial system in China beyond banking.

- **INDONESIA:** Otoritas Jasa Keuangan (OJK), the Indonesia Financial Services Authority, launched a Sustainable Finance Roadmap in December 2014. The roadmap enlists the financial sector, including banking, capital market, and non-bank financial institutions (insurance, leasing, pension funds) to contribute to the national commitment to address climate change and support the transition to a competitive low carbon economy. An Umbrella Policy is now being designed to provide practical guidance on how to green the whole financial system in Indonesia.

- **MEXICO:** The Mexican Banking Association (ABM) has led a voluntary industry approach through the development of a “Sustainability Protocol”, which was formally signed by Mexican banks in April 2016. Aligning with national priorities, such as the government climate change targets for the next 15 years, and endorsed by relevant Mexico government agencies, the Protocol provides guidance on both risk management and sustainable lending, coupled with a plan to provide capacity building and tools for implementation.

- **TURKEY:** Turkish banks have followed a market-led route to sustainable banking, aligning with national goals as well as international principles and good practice. In 2014, the Banks Association of Turkey (BAT) issued voluntary Sustainability Guidelines for the banking Sector. The Guidelines were prepared by a BAT working group on the Role of the Financial Sector in Sustainable Growth, with the participation of 18 banks.

While designing and implementing effective national frameworks for sustainable banking requires different strategies in different countries, SBN members point to consistent general barriers or challenges. The common barriers include:

- Defining and measuring sustainable banking
- Embedding sustainable banking in banks’ core business
- Creating business drivers for sustainable banking
- Promoting information flow to enable sustainable banking
- Building capacity among regulators and banks.

Commonalities in the different country experiences have emerged, which offer valuable lessons and success factors that others can apply. These include the following strategies implemented in various SBN member countries that address some of the barriers and challenges identified above.

- Blended strategy of policy-support and industry-led initiatives at different stages of sustainable banking development
- Incentives
- Multi-stakeholder consultation and awareness raising
- Inter-agency collaboration
• Capacity building and guidance for regulators and FIs
• Monitoring and assessing FI implementation, including key performance indicators (KPIs)
• Adopting a holistic approach to E&S aspects in sustainable/green banking definition
• Partnership with the International Community

Looking across this emerging practice, four key indicators appear to be useful to track green banking:

1. **Banking commitments**: the adoption and implementation of green finance principles, standards, and practices by banks.
2. **Financial flows**: the volume and distribution of bank assets to green investment priorities.
3. **Financial risk**: the impacts on the quality of financial assets from integrating environmental and social factors (e.g. non-performing loans)
4. **Environmental and social outcomes**: avoidance of negative E&S impacts and achievement of positive impacts in core financing activities.

Finally, this paper recommends options the G20 can consider to scale up sustainable banking, drawing on country experiences and leveraging the existing SBN platform. These could include

- Advance common definitions and measurement of “sustainable banking”;
- Support the establishment of a global knowledge hub to scale up the information exchange and peer-learning, drawing on the experience of SBN;
- Accelerate country-driven work programs to deepen the technical knowledge base for implementation, including through regional prioritization and collaboration.

**II. Context**

Sustainable banking spans two important aspects of banks’ business operations:

i) **Risk management**: by integrating E&S risks in lending considerations in order to avoid or mitigate financial losses, reputational risk or harm to the environment and people caused by projects banks’ finance. Increasingly, a growing number of markets also recognize climate risk as a stand-alone factor impacting performance of lenders and borrowers.

ii) **Loan origination**: by supporting lending to businesses that are environmentally friendly and socially responsible, which is rapidly increasing in line with the global commitment to increase funding for climate change solutions.

On the risk management side, there has been growing global convergence of E&S risk management standards among public and private financial institutions in the past decade.

Applied to all IFC investments, IFC’s Performance Standards⁴ have become globally recognized as a benchmark for E&S risk management in private sector operations. Together with the World Bank Group Environmental, Health and Safety (EHS) Guidelines, they are the basis of the Equator Principles.

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⁴ IFC Performance Standards and supporting guidance, including the World Bank Group environmental, health and safety (EHS) guidelines [www.ifc.org/sustainability](http://www.ifc.org/sustainability) and [www.ifc.org/performancestandards](http://www.ifc.org/performancestandards)
The Equator Principles is a risk management framework, adopted by commercial financial institutions, defining roles and responsibilities of lenders and borrowers in determining, assessing and managing E&S risk in project finance. As of August 2016, 84 financial institutions in 36 countries have officially adopted the Principles, representing over 70% of international project finance debt in emerging markets\(^5\).

Multilateral development banks (MDBs), European Development Financial Institutions (EDFIs), and OECD export credit agencies (ECAs) through the OECD Common Approaches are increasingly drawing on similar and compatible standards as the IFC Performance Standards and Equator Principles for their private sector investment activities. A growing number of national sustainable banking frameworks also reference the IFC Performance Standards as good international industry practice. In effect, these joint efforts have created a sustainable banking landscape that is much more level and convergent than five to ten years ago.

By effectively managing E&S risks and identifying opportunities alongside these risks, banks are beginning to create long-term value for their business. Some banks are driven toward a sustainability path through their need to manage E&S risks, while others enter the path through their desire to offer innovative green products and differentiate themselves from their competitors. While the entry points will vary from bank to bank, it is our view that the optimal long-term value creation is only possible through a careful management of both risks and opportunities.

Adoption of voluntary frameworks like the Equator Principles and other voluntary commitments such as the UNEP Finance Initiative\(^6\) has increased significantly among leading international banks over the last decade. However, adoption by banks in emerging markets has been slower – now about 30% of Equator Principles financial institutions and 50% of the 133 UNEP Fi bank signatories. A 2011 Equator Principles strategic review found that implementation varies from bank to bank. Due to a lack of a reporting standard, reporting is often inadequate to provide information on how the EPs are being implemented\(^7\). A recent IFC survey in the banking sector, conducted in 25 markets, also confirmed that implementation of sound E&S risk management practices and an offering of green banking products in emerging markets still lags behind developed economies. This is despite the costly effects of environmental and social risk. For example, a comprehensive 2009 study by the Chinese Academy of Sciences estimated the annual cost of resource and environmental degradation to be equivalent to 13.5% of China’s GDP in 2005. This represents risk as well as lost opportunities for banks and economies. The following sections discuss some of the barriers and lessons learned that can inform a global agenda to scale up green banking.

### III. Sustainable banking experiences in emerging markets

The Sustainable Banking Network (SBN) captures a new trend of country-level sustainable banking initiatives across multiple emerging markets, where banking regulators and associations are acting as key market drivers. Established in 2012 by regulators from 10 countries, and facilitated by IFC, SBN now brings together 31 countries (see Annex 2), of which 15 – Bangladesh, Brazil, China, Colombia, Ecuador, Indonesia, Kenya, Mexico, Mongolia, Morocco, Nigeria, Peru, South Africa, Turkey and Vietnam – have launched national policies, guidelines, principles, or roadmaps focused on sustainable banking.

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\(^5\) Source: [www.equator-principles.com](http://www.equator-principles.com)

\(^6\) UNEP Fi is a global partnership between UNEP and the financial sector. Over 200 institutions, including banks, insurers and fund managers, work with UNEP to understand the impacts of environmental and social considerations on financial performance.

Each country has adopted a unique route in response to local context and priorities. In Bangladesh, Brazil, China, Indonesia, Morocco, Nigeria, Peru and Vietnam, financial or banking regulators have taken the lead through policy-based initiatives. In Colombia, Ecuador, Kenya, Mexico, Mongolia, South Africa and Turkey, banking associations have coordinated voluntary, industry-led initiatives. In each country the definition of sustainable banking may also vary in terms of how much weight is given to risk management versus green loan origination.

On the risk management side, convergence of local and global E&S standards is helping to level the playing field for local banks and reinforces existing efforts by banks to harmonize their systems with international banks leading in this space. The IFC Performance Standards and voluntary Equator Principles are often a starting point or benchmark when designing country-specific green banking policies. This also makes more efficient use of regulators and market resources. While international standards are useful, SBN members confirm that implementation, compliance and enforcement mechanisms are significantly stronger when policies and principles reflect the country context, including existing specific laws and regulations.

On the loan origination side, different definitions of green loans/credit make it difficult to track and compare initiatives. Country-specific green lending categories tend to be selected based on national strategic priorities, economically important and high impact sectors, and local E&S challenges. Tracking and comparisons are crucial to measure progress in this space.

The following five G20 country examples show how these different elements are blended in various ways, revealing an emerging positive dynamic of market based actions and policy support.

BRAZIL has followed a path of combined voluntary and mandatory approaches to sustainable banking driven by the need for stronger efforts in environmental conservation and to foster sustainable development. Voluntary Green Protocols were first adopted by five Brazilian state-owned banks in 2008 and then by commercial banks in 2009. This reinforced existing commitments by Brazilian banks to international good practice, such as the Equator Principles. In 2004, Banco Bradesco and Itaú Unibanco were among the earliest banks to sign up to the Equator Principles, followed by Banco do Brasil and CAIXA. The Green Protocols gave a greater focus to the creation of internal bank systems that address national sustainable banking priorities.

Facilitation and support by the Brazilian banking association, FEBRABAN, and the Ministry of Environment were critical in guiding the broad commercial banks to adopt the Green Protocol. Between 2008 and 2011, the Central Bank of Brazil (BCB) issued a series of industry-specific and thematic green banking regulations, including on the protection of the Amazon Biome, sugar cane investments and labor standards.

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In 2011, when issuing the regulation (Circular 3,547) regarding the Internal Capital Adequacy and Assessment Process (ICAAP) set out in Pillar 2 of Basel III, the BCB required large banks to assess their individual exposures to E&S risks and the potential impact on regulatory capital. This regulation also requires banks to publicly disclose their E&S risks as part of the market discipline disclosure rules of Pillar 3 of Basel III.

In 2014, BCB published a mandatory Resolution 4,327 on Social and Environmental Responsibility for Financial Institutions\(^\text{12}\). The Resolution strengthens E&S risk management and introduces the concept of relevance and proportionality of E&S risks. It requires banks to develop and execute a Social and Environmental Responsibility Policy, aimed at managing E&S risks, preventing losses from both environmental damages and social issues, and engaging with affected stakeholders.

A 2014 study by the Center for Sustainability Studies\(^\text{13}\) established the first baseline of green lending in Brazil as of the end of 2013. By classifying different types of green lending, the study found that approximately 11% of banks’ lending is directed to “new energy” (small-scale distributed solar energy generation) and low-carbon agriculture.

In 2015, Resolution 4,427 was issued to address specific aspects of risk management and credit monitoring. Banks are authorized to carry out inspections of rural credit operations by remote technology through the analysis of images produced by satellite or Unmanned Aerial Vehicle (UAV), commonly known as drones. The use of images is expected to improve the monitoring process in order to better evaluate the application of resources. Additionally, banks are required to inform the BCB of the geodetic coordinates for all rural financed projects, including crops financing, formation or recovery of pasture, as well as investment in permanent crops and forests.

**CHINA:** China adopted a policy-based approach to sustainable banking to help tackle profound environmental problems and support the transition to a green, inclusive and resilient sustainable growth path. In 2006, China for the first time included quantitative energy efficiency and pollution reduction targets as mandatory targets in its over-arching five-year national economic development plan. Against this background, in 2007, the China Banking Regulatory Commission (CBRC), People’s Bank of China (PBOC), and the Ministry of Environmental Protection (MEP) jointly issued the Green Credit Policy, which called on banks to consider environmental impact and energy efficiency as part of lending decisions. CBRC issued credit guidance in the same year and started to lead on a series of awareness raising activities among banks as well as dialogues with multiple ministries to channel information and technical know-how to banks to enable green lending. In 2012, the CBRC Green Credit Guidelines\(^\text{14}\) were introduced, building on local experience and international good practices and providing clear operational guidance to implement green banking in three categories: E&S risk management, green lending products and services, and greening banks’ own operations. CBRC further introduced the Green Credit Key Performance Indicators (KPIs)\(^\text{15}\) in 2015 to strengthen monitoring and evaluation of green banking.

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In terms of green loan origination, CBRC introduced the Green Credit Statistics System in 2014\(^\text{16}\), which was among the first emerging markets examples of regulatory guidance to define green loans. Green credit loans are classified into 12 categories with sub-categories, reflecting consensus within industries on what projects are considered green. A tool has also been developed for banks to calculate the environmental benefits from green credit lending, including reduction in carbon emissions, water pollution (chemical organic demand (COD)), and savings on water use. With a standardized definition for green banking assets, it is easier for banks to issue green bonds or pilot other green banking products, such as asset-backed securitization. CBRC Green Credit Statistics also track data on loans with compliance issues on (i) environment; (ii) safety; (iii) deploying technologies mandated to be phased out, and (iv) occupational health.

Another good example is CBRC’s 2015 Energy Efficiency Lending Guidance, a joint effort with the National Development and Reform Commission (NDRC), which regulates energy efficiency (EE) and emission reduction. This Guidance reflects combined results of (i) CBRC’s efforts to address barriers on the banking industry side in scaling up EE finance, including lack of knowledge among banks about how to assess and finance an EE project; and (ii) good practices developed by a number of leading green banks over the years, including the China Energy Efficiency Financing program, a risk-sharing facility introduced by IFC, which has financed nearly US$1 billion investment to date and achieved mainstreaming of energy efficiency investments into the participating banks’ main business lines. CBRC is also actively tracking the development of carbon finance market development and in close dialogue with both responsible ministries and active banks in this space.

At the end of 2015, CBRC’s green credit statistics for the top 21 Chinese banks (accounting for around 80% of total banking assets) show that i) on the risk management side, the majority of the top 21 banks have adopted E&S risk management practices at different levels; and ii) on the green loan origination side, the loan balance towards green credit exceeded US$1 trillion, representing 16% growth year-on-year and 2% higher than the overall lending growth rate. Green credit now makes up approximately 10% of these banks’ portfolios.

Building on this experience of greening the banking system, the People’s Bank of China (PBOC) is leading efforts to green the whole financial system in China. With PBOC support, the China Green Finance Council was set up in April 2015 with a wide range of financial market players and stakeholders. It is mandated to deepen and promote green finance across banking, capital markets and the insurance industry. Leveraging the experience and knowledge from the Green Finance Council, PBOC is championing a series of specific green finance agenda items to be included in China’s five-year plan on “ecological civilization”, a national strategy to shift to green economy growth patterns. In December 2015, PBOC also issued the “Green Financial Bond” rules regarding green bond issuance by banks and other financial institutions (PBoC Decree No.1 [2005]), in a bid to raise investment of some RMB 300 billion (US$45.3 billion) annually for environmentally friendly projects. As a

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<th>China Green Credit Loan Classifications</th>
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<td>1. Green Agriculture Development</td>
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<td>2. Green Forestry Development</td>
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<td>3. Industrial Energy Conservation, Water Conservation and Environmental Protection</td>
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<td>4. Natural Preservation, Ecological Restoration and Disaster Prevention and Control</td>
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<td>5. Resource Recycling</td>
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<td>10. Green Transport</td>
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<td>10.1. Railway Transport</td>
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<td>11. Energy Conservation and Environmental Protection Services</td>
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<td>11.1. Energy Conservation</td>
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<td>11.2. Environmental Protection</td>
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<td>11.3. Water Conservation</td>
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<td>11.4. Circular Economy (Resource Recycling)</td>
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<td>12. Overseas Projects Adopting International Practices and Standards</td>
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response, in January 2016, the first green bonds were issued by the Shanghai Pudong Development Bank (SPD) and China Industrial Bank (CIB) respectively. The former issued RMB 20 billion (US$3.1 billion) while the latter issued RMB 10 billion (US$1.5 billion), with third party verification.

INDONESIA: Placing Indonesia’s economy onto a green and sustainable development pathway, as envisaged in the National Long Term Development Plan, will require a large mobilization of investment. Estimates of the annual investment needed are in the order of US$300 - US$530 billion, with a large portion of this investment needed in critical infrastructure, as well as environmentally sensitive areas such as agriculture, forestry, energy, mining and waste. According to IFC research conducted in 2014, the majority of banks as well as non-bank financial institutions in Indonesia do not consider E&S factors in their lending or investment process as a main consideration. However, Indonesia’s financial markets have seen a number of important design innovations over the past years aimed at encouraging green lending and investment.

Recognizing the need for an integrated and robust response from the financial sector, while at the same time improving the resilience and competitiveness of financial services institutions, Otoritas Jasa Keuangan (OJK), the Indonesia Financial Services Authority, launched a Sustainable Finance Roadmap in December 2014. The roadmap enlists the financial sector under OJK supervision, including banking, capital market, and non-bank financial institutions (such as insurance companies, leasing companies and pension funds) to contribute to the national commitment to address climate change – including mitigation, adaptation and the transition to a competitive low carbon economy.

OJK has established a goal to expand investment in green and inclusive industries, which will create a larger market and wider activities for FIs. This includes development of green financing products, schemes and lending guidelines. An Umbrella Policy is now being designed to provide practical guidance to the whole financial system in Indonesia. The Policy will cover definition, principles of sustainable finance, priority sectors, and an action plan for banking, capital markets and non-banking sectors. Future green finance initiatives are expected to include green insurance and green bonds. The Roadmap will constitute an integral part of OJK’s Master Plan for Indonesia’s financial sector. Despite being at an early stage, the Roadmap is unique internationally as a systematic plan grown out of a decade of development of sustainable finance in Indonesia.

MEXICO: Mexico led efforts to establish “Inclusive Green Growth” as a priority area for the G20 development agenda under the Mexican G20 Presidency in 2012. This was taken forward by subsequent G20 presidencies and resulted in the launch of the GreenInvest initiative in June 2015, supported by the German government. It will mobilize private capital, in particular from institutional investors, for inclusive green investments in emerging markets. Mexico’s green growth efforts are driven in particular by the government’s commitments, both in international agreements (such as COP 21) and new national legislation, to address climate change and transition to a low-carbon economy. Mexico already has a carbon tax in operation.

The banking sector has responded with a voluntary, market-led approach. The Mexican Banking Association (ABM) has led the development of a “Sustainability Protocol”, which was signed by Mexican banks and launched in April 2016. Similar to the initiatives in Brazil (2009) and Colombia (2012), the Protocol provides guidance on both risk management and sustainable lending, coupled with a plan to provide capacity building and tools for implementation.

The Protocol has been designed, discussed and developed by the banking sector, framing most of the risk management and sustainable finance needs to align with national priorities, such as the government climate change targets for the next 15 years. The Secretary of Environment and Natural Resources (Semarnat) has been
involved at the different stages of the Protocol design, and has particularly supported the components that address E&S risk management as well as sustainable finance.

With a view to successful implementation, ABM has defined key practical commitments for signatory FIs, including knowledge sharing, information disclosure, and participation in local and global sustainability initiatives, such as the Equator Principles.

**TURKEY:** Renewable energy development is a key environmental theme for Turkey, which is aligning its strategies with the European Union’s Renewable Energy Directive. Turkey produced its first National Renewable Energy Action Plan in 2014. Many of the country’s top 15 banks are participating in the sustainable energy financing facilities. However, responding to a 2015 IFC survey supported by the Banking Regulation and Supervision Agency of Turkey (BRSA), banks have expressed the need for legal and regulatory incentives as well as awareness raising to support the expansion of green investment programs. Harmonized green banking regulations do not yet exist.

In response, Turkish banks have followed a market-led route to sustainable banking, aligning with national goals as well as international principles and good practice. In 2014, the Banks Association of Turkey (BAT) issued voluntary Sustainability Guidelines for the banking Sector. The Guidelines were prepared by a BAT working group on the Role of the Financial Sector in Sustainable Growth, with the participation of 18 banks.

Social and environmental responsibility is also reflected in the Principles of Banking Ethics (article 3, paragraph e) published by BAT, namely that banks should consider social benefits and respect the environment in all their operations. BAT has further developed an education module on Sustainable Banking and Environmental and Social Risks Assessment in Banking Practices.

**IV. Barriers**

Experiences from G20 and non-G20 countries that are members of SBN point to consistent general barriers or challenges faced by banking regulators and banking associations creating national enabling frameworks for sustainable banking. These insights are reinforced by an IFC survey in over 25 countries in the past 4 years and through IFC’s collaboration with over 800 client financial institutions over the past two decades, representing 10% (US$5 trillion) of emerging markets banking assets.

The common barriers include
i) defining and measuring sustainable banking
ii) embedding sustainable banking in banks’ core business
iii) creating business drivers for sustainable banking
iv) promoting information flow to enable sustainable banking
v) building capacity among regulators and banks

**Defining and measuring sustainable banking:** sustainable banking is an evolving concept. Definitions differ across communities of practice and according to local culture and context. The term is generally understood by SBN members to include three optional components, depending on local preferences: i) E&S risk management

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in investment and lending processes; ii) lending and investment to green industries/projects and seeking positive E&S impact; and iii) how banks manage their own E&S footprints, such as greening their facilities and undertaking corporate social responsibility initiatives. The first two components are considered core, although weighted differently based on context and whether social dimensions are included. While the understanding of E&S risk management is now well defined, the definitions of lending with positive E&S impact, and the various models associated with this, can range widely from country to country. In addition, there is currently no systematic approach to measure and benchmark the progress and performance of sustainable banking at a global level. This is made more difficult by inconsistent definitions, data availability, and capacity and resource requirements associated with monitoring and evaluation.

**Embedding sustainable banking in banks’ core business:** banks surveyed by IFC in 25 emerging markets emphasize that senior management support is critical to ensuring company-wide buy-in and reinforcing structures for E&S risk management and sustainable banking. While there is growing interest to increase green lending portfolios, most banks are still struggling with instituting an E&S risk management culture and approach. There are also concerns about added costs of due diligence. SBN members have highlighted the importance of building awareness among banking executives about the value of sustainable banking to anticipate both transaction level and systemic E&S risks and business opportunities. Some SBN member countries are already linking E&S risk management to Basel requirements for managing material risks. DFIs are also helping to show the links with credit, market and operational risk, which can be addressed through enhanced due diligence and good corporate principles.

**Creating business drivers for sustainable banking:** The existence of a business case is critical to stimulate widespread adoption and innovation by banks. Being still a nascent practice, there have not been sufficient academic and empirical studies focused on the real costs and benefits of banks going green, although a growing body of research points to better risk profiles and profitability of sustainable businesses18. SBN members confirm the need for in-depth research and systematic gathering of evidence on profitability and risk profiles of green portfolios at bank level. According to an IFC survey in 25 countries, since green lending practices do require more careful due diligence and stricter selection of clients and projects to finance, there are perceptions among banks that green lending could potentially cost them more in terms of doing business. The industry needs local champions who enter the green finance space and are willing to share their experiences and show the evidence of costs and returns. There are five common kinds of barriers that prevent banks from entering the sustainable banking space: motivation barriers, information barriers, technical barriers, financial barriers, and, last but not least, client awareness barriers. By creating sustainable banking policies and associated incentives, SBN members may well address motivation barriers, but all other barriers remain significant and need to be addressed as well.

**Promoting information flow to enable sustainable banking:** Regulators and banks often find they are not equipped with the necessary information to practice sustainable banking, both on the loan origination side and the risk management side. Banks have a desire to have access to databases that help classify and rate loans based on environmental information, maps, fines of environment protection agencies, etc. E&S information is not presented in easy ways for financial market players to understand and make decisions. Most emerging markets countries have not started to track the level of green lending, so no meaningful comparison can be

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made. As banks start to enter the green bond space, there is a growing need for institutional capacity and systematic approaches to expand the horizon of sustainable banking.

**Building capacity among regulators and banks:** Lack of expertise and capacity is frequently cited as a barrier to implementation, including a lack of qualified service providers. This applies to banking regulators who must engage with and supervise banks on this topic, as well as to banks tasked with designing and running internal systems for sustainable banking. A lack of qualified local service providers is also mentioned as an impediment faced by banks when undertaking review and due diligence on prospective clients. New green technologies evolve quickly and expertise is needed to assess viability.

V. Lessons Learned and Common Success Factors

Commonalities in the different country experiences have emerged, which offer valuable lessons that others can apply. These include the following strategies implemented in various SBN member countries that address some of the barriers and challenges identified above.

**Blended strategy of policy-support and industry-led initiatives at different stages of sustainable banking development:** Policy makers are increasingly reaching out to the financial sector to encourage an industry-led approach to sustainable banking and contribution to national sustainable development goals. Supporting industry-led initiatives avoids a command approach and encourages consensus building. Voluntary initiatives are often initiated and led by banking associations with the input and endorsement of regulators. To compensate for the weak enforceability of voluntary initiatives, regulators may choose to play a stronger role in implementation and supervision, which has shown to be an important driver of adoption by all local banks and a move into serious implementation. This may also lead to voluntary principles becoming mandatory.

- **Brazil:** The Central Bank of Brazil (BCB) and Ministry for Environment have supported voluntary initiatives by Brazilian state-owned and commercial banks through the Green Protocols adopted in 2008 and 2009. BCB subsequently strengthened the policy signals for green banking through thematic regulations on environmental and labor standards, via implementation of the Internal Capital Adequacy and Assessment Process (ICAAP) in 2011, and through the mandatory Resolution 4,327 on Social and Environmental Responsibility for Financial Institutions issued in 2014.

- **Nigeria:** In 2012, the Nigerian Banker’s Committee, comprised of leading banks, launched the Nigeria Sustainable Banking Principles (NSBP). Throughout the process, Central Bank of Nigeria (CBN) was actively involved in shaping the agenda, appointing the advisory body to oversee implementation of the Principles, and taking on the supervision of implementation. As a result, the adoption of the Principles has become quasi-mandatory.

**Incentives:** Market incentives have been introduced by a number of SBN members to drive banks to faster and more strategic implementation of sustainable finance. Incentives may focus on i) positive recognition for good performers, such as through preferential considerations and recognition during supervision, ii) increased lending to specific green sectors or market segments, such as through dedicated funds or credit lines, or iii) appropriate pricing of the currently externalized E&S costs of doing business, such as through taxes on carbon emissions. Fiscal subsidies are treated with caution, both to avoid subsidies for green industries that artificially create and, when withdrawn, destroy business cases, and to address subsidies that maintain incentives for non-renewable industries like fossil fuels.

- **Brazil:** BCB has issued resolutions on low-carbon agriculture (Resolution 3,896/2010) and climate change mitigation (Resolution 4,008/2011), which have led to establishing credit lines for climate-friendly lending backed by resources from the National Plan for Climate Change (FNMC). For instance,
a Climate Fund was launched by Caixa Economica Federal to fund solar projects, energy efficiency, emissions reduction, and waste management

- **Bangladesh**: Bangladesh Bank (BB) has offered a BDT 2 billion (US$ 25.5 million) low-cost refinance window to provide liquidity support to lenders for green financing in 11 specified categories. A new US$ 200 million line of financing was approved by BB’s board of directors to support on-lending by banks and FIs for green transitions in Bangladesh’s export-oriented apparels, textiles and leather manufacturing sectors. Macro-prudential support measures, such as lower equity margin requirements, are being employed to favor socially and environmentally beneficial initiatives and options. Good performers in green finance earn better BB supervisory (CAMELS) ratings, with attendant preferential considerations, such as permissions for business expansion.

**Multi-stakeholder consultation and awareness raising**: Extensive multi-stakeholder consultation has been an effective strategy in a number of countries to build a solid foundation of industry alignment and buy-in before launching national policies, guidelines or roadmaps on sustainable finance. It is also an important part of the implementation process to ensure sustained awareness and confirm regulator commitment to supervision and recognition of good performers.

- **Brazil**: In 2012, during the United Nations Conference on Sustainable Development (Rio+20), a public consultation was conducted by BCB to present the first regulatory proposals concerning the requirement of a social and environmental policy (PRSA) and social and environmental responsibility report, to be implemented by all banking and non-banking financial institutions. As a result of that debate, the Resolution No. 4327 of April 25, 2014, was edited, and provided the principles and guidelines for all Brazilian financial institutions to adopt an E&S Responsibility Policy (PRSA).

- **Bangladesh**: Bangladesh Bank has led a sustained initiative to ingrain socially responsible, inclusive and environmentally sustainable financing in the institutional ethos of the country’s financial sector. Regular consultation has motivated all banks and FIs to increase financing for agriculture; micro, small and medium enterprises (MSMEs); and green businesses and industries.

**Inter-agency collaboration**: A characteristic approach of SBN members is to engage with other regulatory agencies and industry stakeholders in both the design and implementation of national green finance frameworks. Initially a way of overcoming pre-existing regulatory or industry barriers, inter-agency collaboration has proved a fruitful avenue for building capacity of banks, developing sector and thematic technical guidance, and designing market incentives.

- **China**: The 2007 Green Credit Policy was jointly developed by the People’s Bank of China (PBOC), China Banking Regulatory Commission (CBRC) and the Ministry of Environment (MEP), becoming first of its kind in inter-agency collaboration to develop green banking policy, signaling a strong political will to green the banking system. Since then, CBRC has taken the lead in implementing the policy through collaboration with various government agencies such as the Ministry of Finance for Green Credit Guidelines development and Green Loan Classification across key industries.

- **Indonesia**: OJK, the Indonesia Financial Services Authority, is working with other ministries to develop incentives for sustainable finance, including risk guarantee facilities and feed in tariffs for small scale renewable energy projects. OJK also partnered with the Ministry of Energy and Mineral Resources and the National Planning Agency on the publication of handbooks and provision of training for FIs on renewable energy and energy efficiency lending. OJK partnered with the Ministry of Fisheries to develop a sustainable financing plan for fisheries and a joint study on potential lending schemes for sustainable fishery businesses. In order to accelerate the roadmap implementation, OJK also partnered with several international organizations on research, strategic planning, capacity building and raising public awareness.
**Capacity building and guidance for regulators and FIs:** With sustainable banking being a new approach, capacity building efforts and the provision of technical guidance have been essential to assist banks to build internal know-how and systems. Support ranges from training and workshops to technical guidance and sector-specific guidelines and checklists.

- **Brazil:** BCB and IFC partnered to provide capacity building for Central Bank supervisors in order to strengthen knowledge of E&S risk management and support the implementation of the Resolution on E&S Responsibility for financial institutions.
- **China:** Following the launch of the Green Credit Guidelines in 2012, CBRC and the China Banking Association (CBA) have led efforts to disseminate best practices and sector-wide capacity building, including a Green Credit training book and trainings. CBRC has also led a series of awareness raising activities among banks, as well as dialogues with multiple ministries, to channel information and technical know-how to banks to enable green lending.
- **Mongolia:** The Mongolian Bankers Association (MBA), representing all Mongolian banks, launched the Mongolia Sustainable Finance Principles and Sector Guidelines in December 2014, which took effect in January 2015. All participating banks have since developed internal E&S policies and procedures and have hired full-time E&S staff. The sector guidelines provide guidance to participating banks on how to assess potential E&S risks and opportunities in the agriculture, mining, manufacturing and construction sectors, and assess the ability of clients to manage E&S issues. They include guidance on E&S risk rating criteria for assessing and categorising E&S risks, and encourage adoption of relevant industry international standards and best practices.

**Monitoring and assessing FI implementation, including key performance indicators (KPIs):** Monitoring and evaluation plays an increasingly critical role for SBN members as they move to establish ongoing supervision of banks’ implementation and to understand the state of green finance risks and business opportunities as they evolve. Consequently, early efforts have focused on establishing baseline data on E&S risks in banks’ portfolios and the extent of green lending. As banks mature in their internal data capture and external reporting, regulators are gaining an increasingly sophisticated picture of E&S risk management practices and pitfalls, as well as opportunities to further support green finance through market incentives.

- **China:** CBRC introduced a Green Credit Monitoring and Evaluation Mechanism in 2014 to track results of banks’ green credit performance and provide specific key performance indicators (KPIs) to ensure policy objectives are met. Banks are required to use the KPIs to conduct self-evaluation on a 12-month basis and file results with CBRC. CBRC uses the reports for off-site supervision and may also implement on-site supervision. CBRC has also developed a tool to capture the carbon emissions of projects.
- **Brazil:** BCB has required the establishment of a database to capture losses that result from environmental and social issues and also constituted a working group to discuss these issues. The Brazil banking association, FEBRABAN, is currently developing a framework of a database to capture indicators on environmental and social issues, and have made a guide available to local banks.
- **Nigeria:** Nigeria's Central Bank introduced a Monitoring and Reporting Mechanism in 2013 to guide and monitor the implementation of the Nigerian Sustainable Banking Principles. Banks are required to provide preliminary once-off reports on policies and systems, as well as baseline data collection, followed by bi-annual reporting on indicators organized according to the 9 principles. As of the end of 2015, Nigerian banks have now completed the submission of a first batch of reports, which CBN will assess to determine industry baselines and set benchmarks.

**Adopting a holistic approach to environmental and social aspects in sustainable/green banking definition:** The term “green banking” is commonly approached from the environmental perspective. However, social conflicts linked to development projects are on the rise in many countries, driven by community concerns about
land, livelihoods, benefit-sharing and environmental damage. Social issues therefore intersect with environmental issues and can have impacts on bank performance, such as through suspended projects, rising costs, construction delays, and threats to future investment. Human rights, labour standards and access to finance for marginalized groups are similarly social issues that represent risks as well as business opportunities for banks. Most country-level green banking initiatives therefore include both E&S dimensions in the definition of sustainable banking.

- **Turkey**: Turkey’s Sustainability Guidelines for the Banking Sector, issued by the Turkish Banking Association (BAT) in 2014, refer to management of both environmental and social risks, with particular reference to human rights and employee rights, and to stakeholder engagement and communication. Corporate governance is also mentioned, pointing to a further integration to form a combined concept of environmental, social and governance (ESG) performance of businesses.

- **Peru**: The Superintendency of Banking, Insurance and Private Pension Fund Administrators (SBS) of Peru launched the Regulation for Social and Environmental Risk Management in March 2015. SBS also released guidance on the *Role of Enhanced Due Diligence in the Regulation of Socio-environmental Risk Management for Financial Firms* to explain key features of the Regulation. These efforts have been particularly influenced by the high cost of delayed and cancelled projects in the real sector, such as mining, due to social and distributive factors.

**Partnership with the International Community**: One of the consistent themes across all SBN member countries is the fruitful collaboration with the international community, including organizations from many G20 developed countries. Either through engagement at global level, such as SBN knowledge platform, or country-specific engagement on the development and implementation of policies and principles, the international community is increasingly joining hands to support SBN members as well as learn from their pioneering efforts. Examples of collaboration include joint research, knowledge sharing, tool development, capacity building, peer-to-peer learning, funding, and harmonization of international good practices with local requirements in a way that considers local context and culture. SBN members have mentioned in interviews that many of the steps they have taken were enabled by SBN platform and collaboration with peers and the international community.

In conclusion, the country case studies, barriers, lessons learned and common success factors presented above provide an up-to-date snapshot of progress in key emerging markets, among which G20 members are playing strong leadership roles.

While developed countries may face different E&S challenges and may have more developed financial systems, we believe the work of SBN members remains pioneering at an international level and can inform a harmonized global understanding of sustainable banking.

### VI. Assessing outcomes

With many SBN member countries still being in the early stages of adoption, four key indicators appear to be useful to track green banking:

1. **Banking commitments**: the adoption and implementation of green finance principles, standards, and practices by banks.
2. **Financial flows**: the volume and distribution of bank assets to green investment priorities.
3. **Financial risk**: the impacts on the quality of financial assets from integrating environmental and social factors (e.g. non-performing loans)
4. **Environmental and social outcomes**: avoidance of negative E&S impacts and achievement of positive impacts in core financing activities.

Some outcomes achieved by the five SBN G20 countries have been provided in the case studies above. Below is an example from a bank in China.

**Case Study: Tracking China Industrial Bank's Green Banking Journey**

1. **Banking commitments: Adoption and implementation of sustainable banking policy/standards/practices:**
   - Led by a Sustainable Finance Department with regional green finance business units across China
   - **Risk management**: First Chinese bank to adopt the Equator Principles in 2008 and built system, procedure and capacity to implement
   - **Green Loan origination** (2006-2015): launched a series of green financial products as a pioneer, including energy efficiency finance, low-carbon credit card, carbon finance, water efficiency, green credit asset-backed securities; green bonds

2. **Financial Flow: the volume and distribution of bank assets to green investment priorities**
   - At the end of 2015, green products borrowers reached 6030, an increase of 86% compared to the beginning of 2015; and green lending balance reached US$62 billion, an increase of 33% compared to the beginning of 2015, and 26 times increase vs. year of 2009.
   - Green loan is about 16% of total lending, highest among the Chinese banks (national average is 10%)

3. **Financial Risk: the impacts on the quality of financial assets from integrating E&S factors**
   - Assets have grown 15 times (2003 to 2014), ROE over 20% since 2006, NPL ratio <1%,
   - Reputation and brand value: brand value of US$1.09 billion (by Interbrand, 2012), 50% increase over 2011; won many top national and international awards
   - Increased value to shareholders – 2013 Asia Best Shareholder Return Bank

4. **Environmental and social outcomes:**
   - Annual savings expected to be 25.54 million tons of standard coal, 71.62 million tons of carbon dioxide emissions, annual emissions of sulfur dioxide, 100,000 tons of chemical oxygen demand reduction of 1.39 million tons, the annual saving 285.65 million tons. It is estimated that energy-saving emission reduction is equivalent to the total amount of carbon dioxide absorbed by forests each year totaling 7.16 million hectares.

In addition to measuring the four categories of outcomes, more research is needed to understand the business case. For instance, measurement could be extended to answer the following key questions:

- How do banks that have adopted sustainable banking perform compared with those that haven’t, in terms of both risk and financial performance?
- How do green loans compare in terms of credit risk and financial performance with average commercial loans of the same bank?
- How are banks and economies impacted in terms of financial performance and competitiveness through exclusion of potential projects due to environmental and social standards?
- As a new market opportunity, does green lending lead to greater loan growth and growth of assets compared with traditional sectors?
VII. Options for the Green Finance Study Group

The G20 is well placed to support the scaling up of sustainable banking globally and mainstreaming in dialogue on the soundness and stability of the financial sector. With this in mind, the following options are proposed:

1. **Advance common definition and measurement on sustainable banking:** The G20 could lead a global dialogue to bring consistency to sustainable banking and develop common definitions and measurement strategies.

2. **Support the establishment of a global knowledge hub** to scale up the information exchange and peer-learning, drawing on the experience of SBN.

3. **Accelerate country-driven work programs:** G20 members can become more active drivers of specific work programs and regional collaboration to deepen the technical and knowledge tools for country-level implementation.
### VIII. Annex I - Comparison of country initiatives

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**Scope**

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*Note: The comparison is a simplistic representation of the elements of sustainable banking in each country’s banking system. It does not reflect the depth or sophistication of sustainable banking development in different countries.*
IX. Annex II – SBN Membership Map

**MEXICO**
Mexican Banking Association launched the Sustainability Protocol in 2016.

**COLOMBIA**

**ECUADOR**

**PERU**

**MOROCCO**

**TURKEY**
Banks Association of Turkey launched voluntary Sustainability Guidelines in 2014.

**MONGOLIA**

**CHINA**

**VIETNAM**

**BANGLADESH**

**BRAZIL**
The Central Bank of Brazil issued a Resolution on Social and Environmental Responsibility for FIs in 2014.

**KENYA**

**SOUTH AFRICA**

**INDONESIA**
The Indonesia Financial Services Authority (OJK) launched the Roadmap for Sustainable Finance in 2014.

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**Existing guidance:** Bangladesh, Brazil, China, Colombia, Ecuador, Indonesia, Kenya, Mexico, Mongolia, Morocco, Nigeria, Peru, South Africa, Turkey, Vietnam

**In dialogue:** Argentina, Cambodia, Chile, Egypt, Ghana, Honduras, India, Jordan, Laos, Nepal, Pakistan, Panama, Paraguay, Philippines, Sri Lanka, Thailand