

# Sustainable Banking Network (SBN) GLOBAL PROGRESS REPORT October 2019

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#SBN2019Report



## Factsheet

*“SBN Global Progress Report: Innovations in Policy and Industry Actions in Emerging Markets”*

Second Global Progress Report by the IFC-facilitated Sustainable Banking Network (SBN)

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### Need and opportunity

- Over the next decade, the UN estimates that implementing the SDGs will cost between **\$50 trillion and \$70 trillion**; and that the Paris Climate Agreement will cost over \$12 trillion over 25 years.
- In emerging markets, banks hold assets estimated at more than **\$50 trillion** and are responsible for **90%** of all financing in these countries.<sup>1</sup>
- IFC research estimates **US\$23 trillion** in climate investment opportunities in 21 emerging market countries in relation to Nationally Determined Contributions (NDCs).
- IFC estimates that emerging market banks need to increase the share of climate lending in their portfolios from **7% today to 30% in 2030** to mobilize the necessary financing for these green finance investment opportunities.
- Established in 2012, SBN members represent **\$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 Report

- The 2<sup>nd</sup> SBN Global Progress Report was released on October 10, 2018, together with 30 Country Progress Reports.
- The report is based on extensive data collection carried out by SBN and EY in 2019 across all 38 countries represented in the Network.
- Drawing on country experiences and common agreement on good practice and essential success factors, the research used a comprehensive methodology developed by the SBN member-led Measurement Working Group over the past 3 years.

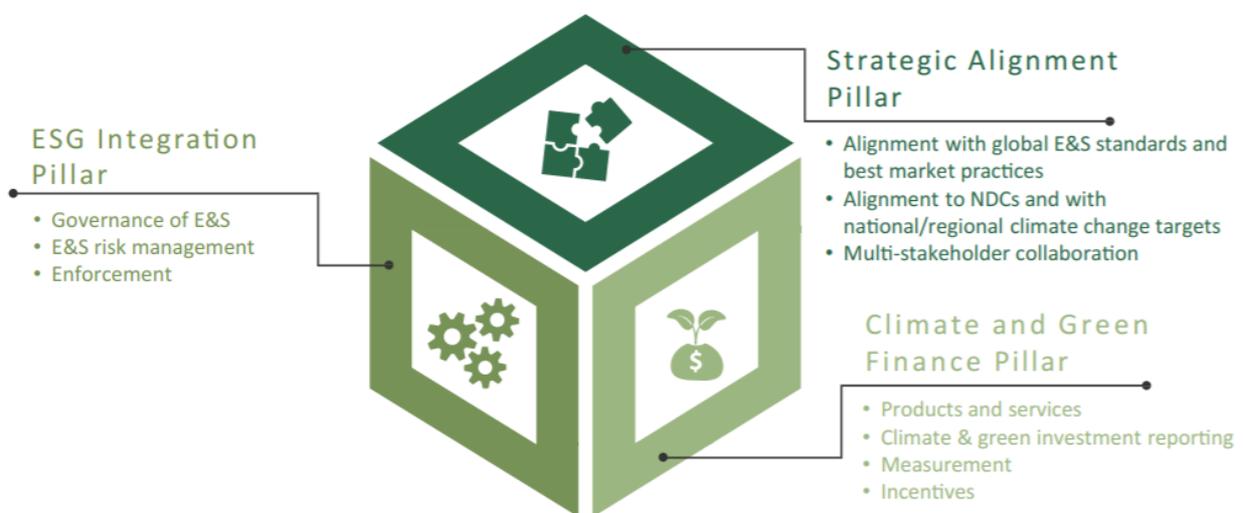
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<sup>1</sup> Secretary-General's remarks at launch of "UN Principles for Responsible Banking", 2019.

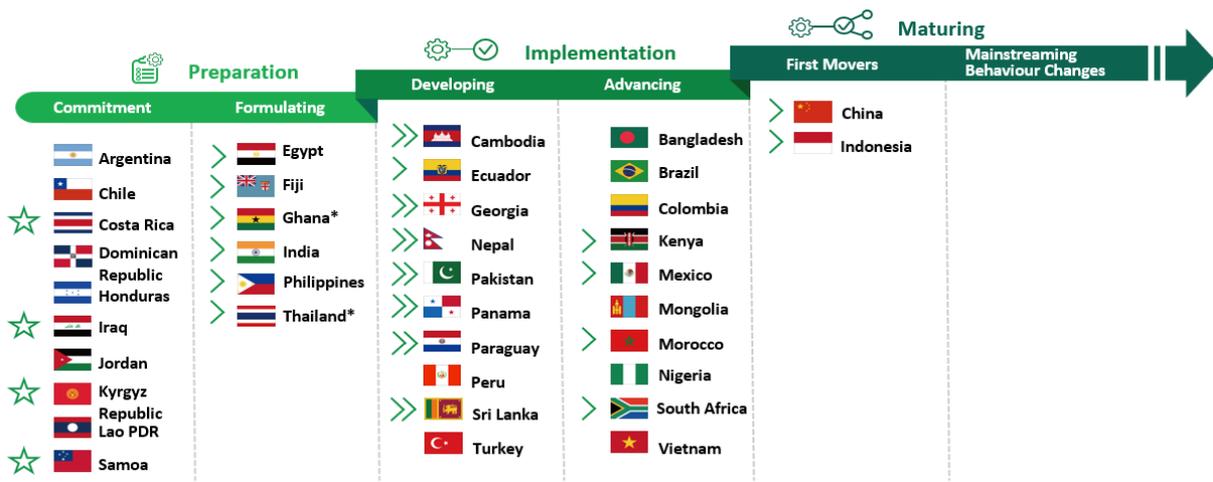
- Combined with 30 Country Reports and 42 case studies from 24 countries, the Global Progress Report is designed as a tool and reference resource for SBN members, helping them to accelerate the alignment of financial markets with sustainable development goals and climate change targets.
- This year’s report testifies to continuous and significant progress made by emerging markets. It also provides a clear path for policy development and implementation, as well as how to promote behavior change in the finance sector. Responding to environmental degradation and social development priorities, SBN members are demonstrating strong leadership in sustainable finance policy reforms and industry innovation.

### About the SBN Measurement Framework

- The **SBN Measurement Framework** was developed by members and is based on their practical experiences and lessons learned over the past decade. It reflects the elements that are consistently seen as essential to developing robust and effective national approaches to promoting sustainable finance.
- The framework consists of three pillars based on 19 indicators and 55 underlying questions.
- The three pillars are based on three essential components identified by SBN members for building effective national enabling frameworks for sustainable finance.
  - **Strategic Alignment:** members find that national policies that are aligned with global good practices and international frameworks are more likely to be effective and to attract international investment.
  - **Climate & Green Finance:** new financial products that address climate, environmental, and social objectives are becoming increasingly popular as a way to achieve national sustainability goals while unlocking financial sector innovation.
  - **ESG integration:** better management of environmental, social, and governance (ESG) risks by banks is also leading to reduced credit risk, while contributing to financial stability.



- Building on the three pillars in the assessment methodology, as well as sector data and case studies focused on behavior change, the **SBN Progression Matrix** provides an overview of country maturity on sustainable finance based on key phases identified by members:



**Progress since the 2018 Report**

- ☆ 4 new SBN member countries made progress in the initial Commitment Stage > 13 countries moved up one stage
- 14 countries made progress within the same stage >> 7 countries moved up two stages

\* Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this Report.

**Key results based on the Progression Matrix assessment**

- As of June 2019, the cut-off date of the Report, 22 out of 38 SBN countries have launched national policies and voluntary principles, and 2 more countries have launched their first national sustainable finance frameworks since then.
- As of October 2019, the total number of countries with frameworks has gone up to 24, up from 15 since the 1<sup>st</sup> SBN Global Progress Report published in February 2018 (based on data as of June 2017).
- Within the last two years, 24 of SBN’s 38 countries progressed to the next stage of maturity in sustainable finance reform and 7 have advanced multiple stages. Other countries also progressed within the same stage.
- For the first time, two countries entered the Maturing Stage, which reflects practical initiatives to drive behaviour change of financial institutions through engagement and monitoring.
- Eight countries moved from the Preparation Stage to the Implementation Stage, shifting from vision to practice in sustainable finance policy action.
- Fourteen countries have not yet launched a policy framework, and four of these countries are in the process of formulating national policies or principles.

**Important findings**

- Sustainable finance is increasingly at the core of financial regulation and financial market norms. SBN members are committed to aligning their sustainable finance policies and principles with market good practices and international goals on climate and sustainable development.
- Management of environmental, social, and governance (ESG) risks is shifting from being a niche to a widespread expectation of regulators and good industry practices. The Equator Principles and IFC Performance Standards are among the most referenced international standards by SBN members.

- Green bonds have emerged as a key driver of national climate-focused and green finance market development. Fourteen countries have developed green bond guidelines that substantially align with or directly reference international standards.
- Robust ESG reporting and monitoring frameworks are critical to strengthening financial institutions and helping to create natural checks and balances. SBN members are developing innovative approaches that require banks to monitor, manage, and report on their own ESG processes as well as the impacts they are having on borrowers' businesses, the environment, and society.
- More work lies ahead for financial institutions to understand and assess financial market risks and opportunities related to climate change.

### Next Steps

- Policy is only a means to an end. What ultimately matters is measurable change in the practices of banks and the impacts of the businesses and projects they finance.
- After initial progress in setting a collective vision, SBN members are now **driving measurable change**, with a focus on four areas:
  - Sustainable finance needs to be central to financial supervision.
  - Robust reporting and monitoring frameworks need to be established.
  - More work is urgently needed to enable financial market players to understand and manage both physical and transitional climate-related risks.
  - Industry-wide capacity building remains critical to supporting broad behavior change among emerging market financial institutions.

### About SBN

The Sustainable Banking Network ([www.ifc.org/sbn](http://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 sustainable finance. Seven years since its establishment, SBN has grown into a major force for sustainable finance. The network's members now represent 38 countries and \$43 trillion, or 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 is Secretariat and technical partner, 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).