

Sustainable Banking Network

NECESSARY AMBITION:

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

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Foreword from the SBN Task Force

Investigation of National Approaches to Sustainable Finance in International Development Association (IDA) Countries – An SBN Task Force Report

Foreword from the SBN Task Force



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Eleven SBN countries – over a quarter of the countries represented by the Network – are classified as IDA countries: Bangladesh, Cambodia, Ghana, Honduras, Kenya, the Kyrgyz Republic, the Lao People's Democratic Republic, Mongolia, Nepal, Nigeria, and Pakistan. Despite their IDA status, these countries have achieved remarkable milestones in sustainable finance in recent years. In some cases, progress has occurred despite significant national challenges – including national disasters, such as Nepal's earthquake in 2015. It is a story we believed was worth telling and investigating in greater depth.

Sustainable finance has emerged dramatically on the global stage in the past decade as an overarching term for both improved consideration of environmental, social, and governance (ESG) risks across all financial sector transactions as well as innovation to unlock the significant new investment opportunities in green, climate, and sustainability linked sectors. Despite the achievements of SBN's IDA members, we nevertheless need to consider the specific characteristics of IDA countries that hinder or help progress on sustainable finance; as well as the ways in which other financial sector priorities, such as financial inclusion and lending to SMEs, are closely tied to sustainable finance.

While the financial sector regulatory infrastructures in IDA countries tend to be less developed, many have gone through positive transformations in the past decade. Local financial institutions may be smaller and younger, with more limited geographic footprints. The local private sector is often smaller and less developed, which means higher risks for banks that lend to these businesses, but also a much greater need for financing to support private sector development. There is greater dependency on sectors such as agriculture and mining. IDA countries therefore have a different profile than more mature SBN countries such as China, Indonesia, and Brazil. Nevertheless, they have an opportunity to leapfrog their financial sector practices and capitalize on the rapid global shift to sustainable finance.

This report shows that IDA countries can make a substantial contribution to global development challenges, particularly with respect to poverty reduction and climate change adaptation. IDA countries are also pioneering solutions that could benefit other SBN countries. Faced with urgent and immediate development needs, shifting the financial sector to more sustainable practices is imperative for IDA countries, and is forcing regulators to commit to bold action. Thus, the title of this report: Necessary Ambition.

The global impact of the coronavirus disease (COVID-19) is demonstrating both the vulnerability and interdependence of markets. It is therefore of great significance that we are launching the report at this time. By investing in and building enabling environments in the poorest countries, we reduce risk and help increase prosperity for all markets. This report highlights the tremendous innovation that is possible through collaboration to achieve sustainable finance, not just at a country level but at a regional and international scale.