Sustainable finance is essential to the future resilience and competitiveness of banks and economies. At its core, the practice combines proactive environmental and social (E&S) risk management with an emphasis on lending to green and inclusive sectors.

There is growing evidence that an embedded understanding of E&S risk reduces financial losses in banks’ lending portfolios. It also helps banks add value to the businesses that receive their financing. At the same time, there is pressure for financial institutions, as major economic players, to help tackle some of the world’s pressing challenges, such as climate change, pollution, water scarcity, energy needs, poverty, and inequality – challenges with measureable impacts on economic growth.

So how can the financial sector contribute to financial stability coupled with sustainable development in emerging markets? This has been the focus of the Sustainable Banking Network (SBN) since it launched in 2012. Supported by IFC, part of the World Bank Group, the SBN is a unique platform of regulators and banking associations helping to guide markets towards sustainable finance and the green economy.

IFC proudly co-hosted the third annual meeting of the SBN in partnership with Peru’s Superintendency of Banking, Insurance and Private Pension Fund Administrators (SBS). With 150 participants from 25 countries, the 2015 forum was the largest-ever gathering of banking regulators focused on sustainable finance – the latest indication of the critical nature of this issue.

In this summary report, we have captured the rich input gathered from panelists and participants. As this trend quickly develops, experiences and lessons learned can help others accelerate their efforts.

The SBN can be proud of its achievements. Members now comprise regulators and banking associations from 19 countries across Asia, Africa, the Middle East and Latin America. The number of member countries launching national frameworks for sustainable finance doubled to 10 in the last year alone.

As a global standard setter in sustainable finance, IFC is privileged to be a partner in these efforts, both as Secretariat to the SBN and technical partner to participating regulators and banking associations. We welcome the expansion and deepening of the work of the SBN and pledge our commitment to continue supporting these groundbreaking efforts.

As sustainable finance spreads to other parts of the financial sector – including capital markets, pension funds and the insurance sector – I am inspired by the tremendous potential for sustainable financial returns while we enable innovative business solutions to ensure a prosperous future for all.

Morgan Landy
Director, Environment, Social and Governance
International Finance Corporation, World Bank Group
Foreword

SBS is very proud to have co-hosted the third International Sustainable Finance Forum with IFC in Lima in September 2015. This was not only the largest gathering of banking regulators focused on sustainable finance to date, and the first held in Latin America, but it also contributed to dialogues in advance of the World Bank and IMF Annual Meetings, held for the first time in Peru.

I am particularly glad sustainable finance is finally emerging as a central topic of the future global financial system. As financial sector regulators, we must provide a vision and direction for banks to adopt prudent practices that preserve not only financial stability but also the priceless environmental and social assets on which our economies depend.

In Peru, the importance of our natural resources and ecosystems, and their contribution to livelihoods, health and communities, are very clear. While environmental risks play a role, we see more and more that social and distributive factors can have the biggest impacts on banks’ portfolios, such as when projects are delayed or even prevented through lack of community support.

For this reason, we launched a new regulatory framework in March 2015 to guide the implementation of social and environmental risk evaluation by the financial sector. Financial institutions have traditionally relied on their client companies to manage these risks. However, banks have an influential voice and should require the application of best practice to protect themselves, their clients, and affected stakeholders.

This is a gradual process of transformation, but I am excited to see the rapid advances already being achieved. We have made substantial progress in defining what sustainable finance should incorporate from a regulator perspective. The Equator Principles, an international voluntary risk management framework based on the IFC Performance Standards, have now been adopted by over 80 financial institutions worldwide, including Peru’s leading banks. However, voluntary arrangements are insufficient. We now need an evolution in regulatory adoption of this definition and methodology for the creation of a level playing field. Conflict is unavoidable between humans, but we can manage it poorly or well. Trusted individuals and experts of many kinds will be needed in this effort. An ounce of prevention is worth a pound of cure.

Dr. Daniel Schydlowsky
Superintendent, Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS)
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1. Introduction

The third International Sustainable Finance Forum, the Annual Meeting of the Sustainable Banking Network (SBN), was co-hosted by Peru’s Superintendency of Banking, Insurance and Private Pension Fund Administrators (SBS) and IFC in Lima, Peru, from 16-17 September 2015.

This Forum also formed part of the “Road to Lima” initiative, a series of high-profile events organized by the Government of Peru, the World Bank Group, and the International Monetary Fund (IMF) leading up to the 2015 Annual Meetings of the World Bank and IMF in Peru in October 2015.

150 participants from 25 countries attended the Forum, which consisted of a one-day conference on sustainable finance on 16 September, and a one-day roundtable discussion with banking regulators on 17 September.

In this summary report we i) provide background to the SBN, ii) summarize key points and outcomes of the 2015 Forum, and iii) feature country updates for 10 countries that have implemented roadmaps for sustainable finance.

1.1. ABOUT THE SUSTAINABLE BANKING NETWORK

The SBN is a unique, innovative community of financial sector regulatory agencies and banking associations from emerging markets committed to advancing sustainable finance in line with international good practice.

The idea for the SBN arose during the first International Green Credit Forum, co-hosted by IFC and the China Banking Regulatory Commission (CBRC) in Beijing in May 2012. Banking regulators from 10 countries gathered for the first time to discuss the need for enabling frameworks for sustainable finance. They requested that IFC facilitate a knowledge network on sustainable banking. The SBN was formally launched in September 2012 and the second International Sustainable Finance Forum was held in Lagos, Nigeria, in March 2014, co-hosted by IFC and the Central Bank of Nigeria.

A main focus of the SBN is the design and implementation of effective policies, guidelines and practices at country level to promote adoption of sustainable finance by financial
institutions (FIs). The Network aims to facilitate the collective learning of its members and support them in policy development to create drivers for sustainable finance.

Currently hosted by IFC\(^1\), as acting Secretariat and technical advisor, the Network offers a knowledge platform to support a level global playing field for sustainable banking. Activities of the Network include:

- **Annual meetings**, which provide the space for dialogue, networking and knowledge generation. These meetings provide SBN members with a platform to present national initiatives in the sustainable banking space, discuss current and emerging issues, and jointly develop new approaches to sustainable finance.

- **Research and knowledge products** to capture and share the latest trends, innovations, and challenges in the field of sustainable finance.

- **Working Groups** focusing on specific topics, such as policy development and implementation, capacity building, and monitoring and evaluation.

- **A peer-review and consultation process** to support country-specific policy formulation and ensure consistency of local policy with international good practice.

- **Learning and knowledge sharing programs**, such as training, workshops, study tours, and peer-to-peer exchanges and cooperation.

Since its launch in 2012, the SBN has doubled in membership and continues to grow. SBN members now comprise 19 countries and 26 member institutions from Bangladesh, Brazil, China, Colombia, Honduras, Indonesia, Lao PDR, Kenya, Mongolia, Morocco, Nepal, Nigeria, Pakistan, Paraguay, Peru, the Philippines, Thailand, Turkey and Vietnam.

The SBN is a completely voluntary initiative. A defining characteristic of the Network is the practicality and openness with which regulators collaborate to share knowledge. The Network is open to all officials or specialists working in banking regulatory bodies that have an interest in supporting the financial sector with guidance to manage E&S risks and opportunities.

Donors and partners supporting the SBN and its activities include IFC; the government of

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\(^1\) As the largest global development finance institution focused on the private sector in emerging markets, IFC has almost two decades of experience providing technical assistance to emerging market financial institutions to address the social and environmental aspects of finance and investment. IFC supports its financial sector clients to create robust environmental and social risk management systems (ESMSs) and to seek lending opportunities that leverage new business models for green and inclusive economies. Examples include renewable energy, clean technology, and access to finance for women entrepreneurs. IFC also increasingly assists regulators in emerging markets to benchmark and design approaches to promote sustainable finance in their home countries. For instance, IFC’s Environmental and Social (E&S) Performance Standards and the World Bank Group Environmental, Health and Safety Guidelines have served as technical references for national policy development in SBN member countries.
Japan through the Ministry of Finance; the Government of Switzerland through the State Secretariat for Economic Affairs (SECO); the Government of Denmark; and the German Agency for Development Cooperation (GIZ) on behalf of the German Ministry for Economic Cooperation and Development (BMZ).

To become a member of the SBN, please get in touch with Ms. Rong Zhang, SBN Global Coordinator, at rzhang@ifc.org. For more information, visit www.ifc.org/sbn

1.2. FUTURE ACTIVITIES OF THE SBN

Members' enthusiasm and commitment to share knowledge with peers has driven the success of the SBN. Supported by IFC, the annual forums have been hosted by different member countries who have taken on leadership roles during their year of hosting.

With a view to expanding and deepening the work of the Network, the 2015 Forum focused on how to increase the knowledge sharing potential and contribute to international dialogue on the future of banking.

DEEPENING TECHNICAL CONTENT

The core interest of the members continues to be in practical technical content and exchanges that can assist them in their efforts to develop national frameworks for sustainable finance.

There is also a strong focus on implementation, including training and technical guidance for banks and regulators, coupled with the right market incentives. SBN, in partnership with IFC, is seen as playing a vital and valuable role in this regard.

There is agreement to promote deeper and more consistent knowledge sharing among members – to share best practices and practical examples that help make the case for sustainable finance.

Two key technical themes emerged at the 2015 Forum:

- “Enhanced due diligence” as a necessity in order to anticipate systemic social and environmental risks in emerging markets, and
- The responsibility of banking regulators to consider sustainability in terms of both macro-prudential (systemic risks) and micro-prudential supervision (transaction-level risks).

A proposal was put forward to formulate a set of common frameworks to guide regulators
in creating effective national policies on sustainable finance.

**EXPANDING THE NETWORK BEYOND BANKING**

There is interest to expand the scope of the Network to cover other parts of the financial sector ecosystem, including capital markets, insurance, and pension funds. This includes a proposal to change the name to the Sustainable Finance Network (SFN).

There is also increasing interest in other aspects of sustainable finance beyond environmental and social risk management policies, such as financing green and inclusive business models, managing carbon footprints, applying carbon pricing, and assessing climate risks.
The SBN provides a unique international platform for banking sector regulators and partner agencies to participate in debate on current trends and challenges around sustainable finance in emerging markets.

The annual forums feature practical and action-focused contributions from SBN members and other stakeholders about real-world experience with implementation of sustainable finance policies, systems, economic incentives, green lending, training, and disclosure.

Most importantly, the forum discussions allow members to share views on the key challenges ahead and position the work of the SBN to proactively address these challenges through research, tool development and peer-to-peer knowledge exchanges.

The following are highlights from the six panel discussions organized during the 2015 event.

2.1. RESPONDING TO GREEN GROWTH NEEDS

Panel Discussion 1: Sustainable Finance – Responding to Green Growth Needs

Moderator: Mr. Marcos Brujis, Director, Financial Institutions Group, IFC

Panelists:
- Ms. Ceyla Pazarbasioglu, Senior Advisor, Finance & Markets Global Practice, World Bank
- Mr. Mulya Siregar, Deputy Commissioner of Banking Supervision, Indonesia Financial Services Authority (OJK)
- Mr. Nick Robins, Co-Chair, United Nations Environment Programme Inquiry into the Design of a Sustainable Financial System
- Ms. Neydi Cruz, Deputy Director General, International Affairs Unit, Ministry of Environment and Nature, Mexico
- Mr. Rodrigo Pereira Porto, Head of Division, Financial System Regulation Department, Brazilian Central Bank (BACEN)
Description:
As emerging markets focus on developing green growth models, it is expected that the financial sector, as an important capital provider, will be engaged to work with businesses to manage impacts to the environment and communities and to finance the move to an environmentally and socially sustainable growth model. New risks will need to be assessed and managed and new business products and services developed and deployed. It is expected that a combination of public and private sector approaches will be pioneered. This panel discussed research, trends and country experiences in support of green growth.

Highlights from the discussion:
Climate change and pollution are resulting in serious impacts in emerging markets. Climate change is a global challenge. It is not something any one country or institution can address. The financial sector has a crucial role in responding to both the business risks and opportunities.

There is a huge need for green investment. How does the financial sector allocate capital and how do we come up with more ways to allocate capital to green technologies? What can regulators do to foster green investments?

Global initiatives supporting the role of the financial sector in green growth include the United Nations Environment Programme Finance Initiative (UNEP FI)\textsuperscript{2}, the G20 GreenInvest initiative\textsuperscript{3} championed by the Government of Mexico, and the UNEP Inquiry into the Design of a Sustainable Financial System\textsuperscript{4}. The World Bank Group has convening power and can also think through the risks that can be shared across different entities.

Technology and innovation are essential ingredients in directing sustainable finance towards green growth. Universities are important players in this space.

\textsuperscript{2} UNEP FI is a global partnership between UNEP (United Nations Environment Programme) 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. Visit http://www.unepfi.org/

\textsuperscript{3} Launched in June 2015, during the Turkish G20 Presidency in connection with the G20’s Development Working Group Meeting, the G20 mandated dialogue platform “GreenInvest” will mobilize private capital, in particular from institutional investors, for inclusive green investments in emerging markets. The genesis of GreenInvest has roots in the Mexican G20 Presidency where “Inclusive Green Growth” was established as a priority area for the G20 development agenda and was taken forward by subsequent G20 presidencies. Germany financed the initial establishment of GreenInvest.

\textsuperscript{4} The Inquiry into the Design of a Sustainable Financial System was initiated by UNEP to advance policy options to deliver a step change in the financial system’s effectiveness in mobilizing capital towards a green and inclusive economy. Established in January 2014, the Inquiry published its final report in October 2015. Visit www.unep.org/inquiry
What are the different roles that different financial actors can play? For instance, how can the asset management industry get involved? How can assets be channeled to different types of green investment? How can all these actors, including credit rating agencies, work together to deploy capital?

Central banks can’t do this alone. Coordination is vital between agencies and stakeholders. Training and technical guidance are also needed for banks and regulators, combined with market-driven incentives.

More and better data is needed. Banks should have information to make their own decisions. Better transparency gives more options. With better data and analysis, banks can and should insert externalities into their pricing. There is a need for indicators that can be comparable between financial institutions and can be integrated in their financial reports.

2.2. REGULATORY GUIDANCE AND VOLUNTARY INITIATIVES

Panel Discussion 2: Sustainable Banking - Regulatory Guidance, Voluntary Initiatives and the Experience to Date

Moderator: Mr. Morgan Landy, Director of Environment, Social and Governance, IFC

Panelists:
- Dr. A’isha U. Mahmood, Special Adviser to Central Bank of Nigeria’s Governor on Sustainable Banking
- Ms. Xiaowen Li, Director, Research Department, China Banking Regulatory Commission
- Mr. Habil Olaka, CEO, Kenya Bankers Association
- Mr. Naidalaa Badrakh, CEO, Mongolian Bankers Association
- Mr. Andres Rojas, Vice President of Corporate Affairs, Asobancaria, Colombia

Description:
The banking sector provides finance and has a significant client base in most emerging markets. Through the SBN, innovation and good practices have been shared and disseminated. This panel focused on lessons and experiences in sustainable banking regulation, business practices and financial innovation.
Highlights from the discussion:
Both mandatory and voluntary approaches to sustainable finance are working in different national contexts. In both scenarios, central banks and other agencies, such as ministries of finance, play an important role to support implementation by banks.

There is a clear need for financial incentives to encourage bank executives to take sustainable finance seriously. The incentives also need to be marketed effectively. The best incentive is profitability. If green finance is less risky then this should be reflected in capital requirements.

Regulators have a duty to align their language and efforts with the expectations of banks. The main concern of central banks is to maintain soundness in the financial system. Similarly, FIs have a focus on business priorities. More capacity building is needed for both regulators and banks, as well as guidelines that summarize good practices and the business case for sustainable finance. By promoting sustainability, we will promote investment opportunities.

We need additional tools. E&S risk management is not just about corporate social responsibility and branding. E&S risk management in terms of “enhanced due diligence” is a powerful tool and a necessity to anticipate systemic social and environmental risks in emerging markets. Information flow is key to decision making. It is therefore important that FIs have good access to E&S risk information about companies and the economy. For example, analysis is needed of long-term risks, such as climate change, and how these should be addressed in capital requirements.

2.3. MANAGING SOCIAL RISKS

Panel Discussion 3: Managing Social Risks – Effective Stakeholder Engagement

Moderator: Ms. Robin Sandenburgh, Senior Manager, Environment, Social and Governance Department, IFC

Panelists:
- Mr. Paul Collazos, Head of Specialized Lending Risk Department, SBS
- Mr. Mario Sergio Fernandes de Vasconcelos, Head of Institutional Partnerships, FEBRABAN, Brazil
- Mr. Pablo De la Flor, Corporate Affairs Manager, Banco de Credito del Peru
- Mr. Ajay Narayanan, Head of Climate Business and Sustainability, Financial Institutions Group, IFC

Description:
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 risks can translate into risks to the lending portfolios of FIs through suspended projects, rising costs, construction delays, and threats to future investment. However, adopting sound social risk management
practices is a complex endeavor, which is often complicated by the absence of an enabling environment and regulation to create a level playing field for all institutions operating in a market. Financial regulators are well positioned to signal and provide guidance to banks and other financial institutions in the increasingly important area of social risk management. This panel highlighted steps taken by financial regulators to support the financial sector with guidance on assessing and managing social risks. The panel also included examples and good practices from FIs.

Highlights from the discussion:
This is a topic that has both macro and micro dimensions. Even though it focuses on social issues, it also intersects with the environment. Issues like quality of the soil, air, and water are critical to communities, and these environmental issues can trigger social discontent.

Very often social issues don’t just arise in the context of a transaction, but rather they already exist within a national development context. Issues older than those in the project get entangled in discussions with communities. In many instances, communities are verbalizing very deeply rooted frustrations that might not be related to the project. There will be an effect not only on the lender, but also on the area of influence of the project and within the boundaries of legislation of a particular country.

Better systems are needed to deal with social issues in advance. This includes enhanced due diligence, consideration of social impacts in the evaluation of loans, and involvement of experienced professionals with expertise in social engagement. There is no difference between this kind of analysis and credit risk analysis. The real impact is going to be achieved by financial institutions internalizing these things and really understanding the risks.

The E&S agenda must be part of the business of banks and the best structure is to anticipate social conflicts and design viable projects accordingly. To achieve this, the community must be involved. If people feel more involved, then consent is more viable. Companies need to learn the benefits of consultation and that social management is an ongoing process which doesn’t end when the project is approved.

IFC is committed to managing social risks. The IFC Performance Standards give a robust framework to assess and manage social risks on a continuous basis. IFC has developed a partnership approach, taking a journey with clients to manage these issues. Something to remember is that the lender often has more capital at stake and the project sponsor has more control over the project. The most useful tool is a conversation with the project sponsor to make sure they are aware of the risk.
As a lender you have a right to request that clients disclose and manage the risks. Asking hard questions doesn’t mean losing clients. It can actually strengthen relationships with clients through interaction that adds value.

It is important to be part of a community of knowledge, such as the SBN and Equator Principles networks, in order to access practical resources and experiences of other lenders and regulators in dealing with social issues. By creating a national framework, policy, or roadmap, regulators indirectly create a community of knowledge and a market for professional services related to E&S risk management.

2.4. INNOVATIONS IN INSURANCE, PENSION FUNDS AND STOCK EXCHANGES

Panel Discussion 4: Greening the Global Financial Ecosystem – Innovations in Insurance, Pension Funds and Stock Exchanges

Moderator: Dr. Michel Canta, Deputy Superintendent of Private Pension Fund Administrators, SBS

Panelists:
- Mr. Isaac Ramputa, Chairman of Batseta, the Association for Pension Fund Trustees in South Africa
- Mr. Mark B. Alloway, Chief Investment Officer, IFC
- Ms. Sonia Favaretto, Sustainability Director, Brazil’s Securities, Commodities and Futures Exchange (BM&FBOVESPA)

Description:
The wider financial ecosystem is increasingly aware of the necessity and opportunities of sustainable finance. The insurance sector, pension funds, and stock exchanges in some emerging markets are adopting their own tools, definitions and systems for integrating environmental and social performance management. This trend offers opportunities for synergies between various parts of the financial sector, such as harmonization of monitoring and incentives for responsible companies. This session showcased examples and opportunities for collaboration.

Highlights from the discussion:
Pension funds, especially trustees, are key in terms of making decisions about where money should be invested over the long term and taking into account environmental, social and governance
(ESG) thinking. South Africa introduced a new regulatory requirement in 2012, which redefined the duty of pension fund trustees to assess all potential risks to pension fund investments, including ESG factors. Reinforced by an industry-led awareness raising initiative, the regulation has changed the mindset of pension fund trustees and their engagement with asset managers. It has highlighted how the financial value chain links banks, insurance providers, stock exchanges and pension funds, and the need for greater alignment on sustainable finance practices. There should be no separation between what the pension funds and other market players do in terms of assessing ESG risk. They should be working together and using the same criteria.

Company reporting worldwide is still not good enough to allow for consistent rating of businesses on green credentials and ESG management. There is a need for mainstreaming of ESG disclosure. It is not about compliance. It is about good business. What we want to see is a rating that we can all understand across all markets. The biggest challenge is getting companies to report and to understand the value of reporting. There needs to be a global, standardized way to understand whether a company is “investment grade” or not investment grade.

This year is the 10th anniversary of Brazil’s BOVESPA sustainability index. An independent study five years after launch showed the index has had an impact. Companies that are part of the sustainability index are more aware of all categories of risk. These companies are seeking to innovate and anticipate the market movement. Companies in the index have 9-10% higher capitalization. In the days running up to the announcement of the sustainability index, the equities attract a higher return. A growing number of companies are willing to publish their answers on the index website. The BOVESPA index is moving towards integration with other parts of the financial sector. We want the same thing. We have more power together. There are so many different initiatives; we need to find a way to harmonize.

5 Launched in 2011 with IFC support, the Sustainable Returns for Pensions and Society project set out to empower South African retirement funds to comply with revised Regulation 28 of the Pension Funds Act and the voluntary Code for Responsible Investing in South Africa (CRISA). These call for integration of environmental, social, and corporate governance (ESG) factors in pension fund investment decisions. A comprehensive industry engagement informed the release in September 2013 of “Responsible Investment and Ownership – A Guide for Pension Funds in South Africa”. Visit http://sustainablereturns.org.za/

6 The BOVESPA Corporate Sustainability Index (ISE), a groundbreaking initiative in Latin America, was launched in 2005, supported by IFC. The ISE is a tool for comparative analysis of the performance of the companies listed on BM&FBOVESPA from the standpoint of corporate sustainability, based on economic efficiency, environmental equilibrium, social justice and corporate governance. It differentiates companies in terms of quality, level of commitment to sustainable development, equity, transparency and accountability, and the nature of their products. Visit http://www.bmfbovespa.com.br/indices/ResumoIndice.aspx?Indice=ISE&Opcao=0&idioma=en-us
2.5. BASEL FRAMEWORK AND E&S RISK MANAGEMENT

Dialogue - Basel Framework and E&S Risk Management

Moderator: Mr. Ajay Narayanan, Head of Climate Business and Sustainability, Financial Institutions Group, IFC

Speakers:
- Mr. Paul Collazos, Head of Specialized Lending Risk Department, SBS
- Mr. Rodrigo Pereira Porto, Head of Division, Financial System Regulation Department, Brazilian Central Bank (BACEN)
- Mr. Marc Schrijver, Senior Financial Sector Specialist, World Bank

Description:
This session focused on how the Basel Framework should be interpreted in relation to environmental and social risk management, and what tools and approaches can best be developed to help address E&S risks in the banking system.

Highlights from the discussion:
The full Basel documents – not only the Basel III capital accord with the three pillars\(^7\) – provide sufficient flexibility to address E&S risk. Environmental and social risks have implications for credit, market and operational risk, but represent a different type of risk that should be managed through enhanced due diligence and good corporate principles. It should therefore be part of the core business of financial institutions.

Banks must understand what the risks are in their jurisdictions and how they can address these risks. The Basel initiative could help by emphasizing the increased importance of this topic through the inclusion of E&S risk language in the various frameworks and documents.

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\(^7\) "Basel III" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:
- improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source
- improve risk management and governance
- strengthen banks’ transparency and disclosures.

The reforms target:
- bank-level, or microprudential, regulation, which will help raise the resilience of individual banking institutions to periods of stress.
- macroprudential, system wide risks that can build up across the banking sector, as well as the procyclical amplification of these risks over time.

For more information, visit https://www.bis.org/bcbs/basel3.htm
There is a need to address both the regulation and the incentive structures. Without incentives, things won’t move. For instance, in the case of climate change, the most important incentives should target the real economy: such as ending fossil fuel subsidies and pricing carbon. This would shift allocation of financial resources from brown to green.

2.6. STRENGTHENING PARTNERSHIPS FOR SUSTAINABLE FINANCE DEVELOPMENT

**Dialogue – Strengthening Partnerships for Sustainable Finance Development**

Moderator: Ms. Robin Sandenburgh, Senior Manager, Environment, Social and Governance Department, IFC

Panelists:
- Mr. Martin Peter, Head of State Secretariat for Economic Affairs (SECO) of the government of Switzerland in Peru
- Ms. Careen Abb, Banking Commission Coordinator, UNEP Finance Initiative (UNEP FI)
- Ms. Christina Poser, Advisor, Financial Systems Development, German Corporation for International Cooperation (GIZ)

**Description:**
*This session focused on identifying ways to enhance collaboration and partnership between SBN and relevant institutions and networks. Panelists from the donor community and international organizations shared their experiences and perspectives in supporting SBN and managing similar networks.*

**Highlights from the discussion:**
Over the last 5 years, the Government of Switzerland through the State Secretariat for Economic Affairs (SECO)\(^8\) has invested heavily in initiatives to promote sustainable supply chains and sustainability standards for key commodities. Switzerland is the world champion in the consumption of fair trade goods. SECO supported an initiative in South East Asia, managed by IFC, which contributed to the creation of the SBN in 2012. The goal is to take the positive experience in Asia and replicate it in Africa. In Peru, SECO is about to sign an agreement with SBS and the Association of Supervisors of Banks of the Americas (ASBA)\(^9\) to improve E&S risk management by FIs in the region. A next step is to look at defining regulatory frameworks.

The work of the German Agency for Development Cooperation (GIZ)\(^10\) falls under the German Ministry for Economic Cooperation

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\(^8\) [http://www.seco.admin.ch/?lang=en](http://www.seco.admin.ch/?lang=en)


and Development (BMZ). One of the areas of focus is economic development and green growth, of which green finance and sustainable finance are important components. One of the initiatives is the Alliance for Financial Inclusion (AFI), established by the Gates foundation and GIZ, which has been hosted by GIZ until now. AFI is a success story, with 125 regulators that have joined. Another initiative is the Access to Insurance Initiative (A2ii), linked to the International Association of Insurance Supervisors (IAIS). GIZ has also been facilitating the secretariat for this initiative. GIZ provides training, research, and coordination.

In its role with FIs, GIZ has seen how important it is to stay in contact and dialogue.

The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between the United Nations Environment Programme (UNEP) and a global network of over 200 FIs, including banks, insurers, asset managers and pension funds. It has always operated very much from the perspective of financial institutions. The Network is 230 members strong and spans all the different continents. It started quite small as a network to pool and share information between peers. Over time there has been an evolution into more concrete ways to support managers, such as training and work programs on ESRM, climate change, water risk and ecosystems services. Other UNEP FI developments include a focus increasingly on dialogue with regulators and other parts of the financial sector. Examples include the Principles for Responsible Investing (PRI), Principles for Sustainable Insurance (PSI), and the Natural Capital Declaration (NCD), which focuses on ecosystem and biodiversity issues.

It is important to exchange good practices, peer learning, and knowledge between stakeholders. All these elements are important push factors for the financial industry to change their practices. In the future we should strengthen our pull factors, so that FIs adopt sustainable finance because it is good for their business. We can make the risks more tangible by putting a number behind the risks. This is a critical area for the future, where more research is needed, and where donors have an important role to play.

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11 https://www.bmz.de/en/
12 http://www.afi-global.org/
13 http://www.gatesfoundation.org/
14 https://a2ii.org/
15 http://iaisweb.org/
16 http://www.unepfi.org/
17 http://www.unep.org/
18 http://www.unpri.org/
19 http://www.unepfi.org/psi/
20 http://www.naturalcapitaldeclaration.org/
The SBN is a unique and important contribution to this space. In a short space of time, the Network has successfully taken the topic of sustainable finance to the global stage, as something that hadn’t received sufficient attention until now. In thinking about future governance models, there should be a focus on the value of the SBN. The Network offers tangible benefits to members in the following ways:

- Knowledge sharing: not just to know what others are doing, but also to showcase and get feedback on country initiatives;
- Helping with national implementation: technical assistance, research, peer-to-peer learning;
- Contributing to global discussions: such as Basel and the G20.

We are seeing a growing number of initiatives focused on this important topic. This offers an opportunity for collaboration to make our various efforts more effective and efficient. We need to now think how to bring things together.
3. Overview of emerging market regulatory initiatives

The annual SBN forum provides members with a unique platform to present national initiatives in the sustainable banking space, get input from peers on current and emerging issues, and showcase local innovation.

Since launching, the SBN has been effective in assisting member countries to develop country-specific, tailored approaches to the design of regulatory and policy frameworks for sustainable finance. To date, 10 countries – Bangladesh, Brazil, China, Colombia, Indonesia, Kenya, Mongolia, Nigeria, Peru and Vietnam – have launched national policies, guidelines, principles, or roadmaps on sustainable finance.

3.1. AN EMERGING COMMON APPROACH

Thanks to commonalities in the different country experiences, a general roadmap approach has emerged, which offers a useful, practical template for others to follow. This common approach includes the following elements that have been implemented in various SBN member countries in line with their specific requirements:

- Conducting research and multi-stakeholder dialogue
- Designing policies and implementation guidelines across 3 pillars:
  - E&S risk management for FIs
  - Green and inclusive lending
  - Managing FI’s own operational footprints and corporate social responsibility
- Building capacity and raising awareness among FIs and key stakeholders, including service providers
- Creating market incentives
- Monitoring and assessing FI implementation, including key performance indicators (KPIs)
- Promoting disclosure and benchmarking of FI performance, including awards
- Fostering international cooperation and harmonizing local ESRM requirements with international good practices (e.g. IFC Performance Standards, Equator Principles and World Bank Group Environmental, Health and Safety Sector Guidelines)

These initiatives have in each case achieved alignment between international standards and local market needs, while responding to global and local environmental and social risks.

Future efforts of the SBN will focus on building the knowledge base for replication of this common approach across emerging markets.

The following updates offer the latest snapshot of progress in 10 countries (in alphabetical order) that have introduced roadmaps and regulatory frameworks for sustainable finance.
SBN Membership Map as of January 2016

Existing guidance: Bangladesh, Brazil, China, Colombia, Indonesia, Kenya, Mexico, Mongolia, Nigeria, Peru, Vietnam

In dialogue: Honduras, Laos, Morocco, Nepal, Pakistan, Paraguay, Philippines, Thailand, Turkey
3.2. BANGLADESH

Bangladesh Bank (BB), the monetary and financial sector regulator in Bangladesh, has been a founding member of the SBN since 2012.

Pursuant to its mandate of supporting the government’s sustainable development goals, while protecting monetary and financial stability, BB is promoting environmentally sustainable, ‘green’ financing to support a rapid transition from high-emission, polluting practices and lifestyles to energy-efficient, sustainable alternatives. To this end, BB is using a package of motivational, enabling, and policy support initiatives.

Overview of Bangladesh’s sustainable finance journey

2011: Guidelines on Environmental Risk Management
- Introduced by BB in January 2011, the Guidelines enable banks and FIs to consider environmental issues in a structured way in their overall credit appraisal processes.

2011: Policy Guidelines for Green Banking
- Issued in February 2011 to address policy and governance of green banking.
- The Guidelines cover the incorporation of environmental risk management (ERM) in credit management, in-house environmental management, green financing, climate risk fund, green marketing, online banking, training, research and development in green banking, sector-specific environmental policies, green strategic planning, green bank branches, bank-specific ERM plans, innovative products, and sustainability reporting.

Key elements of Bangladesh’s approach

1) Proactive industry engagement
- A sustained BB-led initiative is ongoing 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.

2) Targets for green financing
• For 2015, in consultation with the financial sector, disbursement targets were set for green financing at 5% of total credit disbursements for older banks, at 3% for newly licensed banks, and at 4% for non-bank FIs.

3) Policy support for green financing
• A BDT 2 billion (US$ 25.5 million) low-cost BB refinance window provides liquidity support to lenders for green financing in 11 specified categories.
• A new US$ 200 million line of financing was recently approved by BB’s board of directors to support on-lending by banks and FIs that encourages 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 sustainable finance and ERM earn better BB supervisory (CAMELS\textsuperscript{21}) ratings, with attendant preferential considerations, such as permissions for business expansion.

4) Ongoing initiatives
• A comprehensive Environmental and Social Risk Management (ESRM) Framework is being formulated for the financial sector through revisions to the existing ERM guidelines to strengthen the focus on social considerations and environmentally sensitive sectors.

Highlights:
• BB has established a dedicated Sustainable Finance Department to work on green banking, ESRM, climate finance, green bonds, and corporate social responsibility. Banks and FIs have likewise been advised to establish dedicated green banking units for their green banking initiatives.

\textsuperscript{21} Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk.
Overview of Brazil’s sustainable finance journey

1995 & 2008: Green Protocol
• In 1995, under the sponsorship of the Ministry of Environment and the Central Bank, five leading official banks (Banco do Brasil, Banco do Nordeste, Banco da Amazonia, BNDES, and Caixa Economica Federal) signed the Charter of Principles for sustainable development, which became known as the Green Protocol.
• In May 2008, following discussions on the role of the financial sector to support efforts to limit deforestation in the Amazon, government agencies and leading banks engaged in the process of evaluation and revision of the Green Protocol, which was approved and adopted in August 2008.

2000-2008: Voluntary Initiatives
• Originally focused on creating institutional awareness of E&S risks, voluntary efforts quickly evolved into an enhancement of business assessment procedures to incorporate E&S impacts.
• Brazilian institutions became a leading case of success of the Equator Principles, as Itaú became the first emerging market FI to join the Steering Committee of the Equator Principles Association.

3.3. BRAZIL
Brazil has followed a path of combined voluntary and mandatory approaches to sustainable finance to support environmental conservation and foster sustainable development.

The Central Bank of Brazil (BACEN) has been a founding member of the SBN since 2012. Voluntary Green Protocols adopted by Brazilian banks in 2008 and 2009 are reinforced by specific BACEN regulations related to the environment and society as well as a new resolution on E&S responsibility for FIs.

The Bangladesh green finance trend is highly optimistic. From 2012 to 2014, a total of BDT 1,054.92 billion (US$ 13.5 billion) was disbursed by banks as green finance. Annual growth has been more than 25% in this period.
2005: Corporate Sustainability Index (ISE)
- Launched by BM&FBOVESPA, the largest exchange in Latin America, with the support of IFC.
- Its highest governance body, the Board of Governors, is comprised of members from 11 institutions, including the Ministry of Environment, IFC, and UNEP.
- ISE provides an analytical tool to compare the sustainability performance of the companies listed in Brazil.

2008: Central Bank Resolution 3545 – Agricultural Sector Financing Requirements for the Amazon Biome
- Issued by BACEN, the resolution imposes compliance requirements for financial institutions lending for agricultural sector business in the Amazon Biome. There is strict enforcement of licensing compliance.

2009: Green Protocol for Commercial Institutions
- The Brazilian banking association, FEHRABAN, and the Ministry of Environment developed and signed the Green Protocol for Commercial Banks in April 2009.
- In 2010, FEHRABAN organized workshops to engage Green Protocol institutions to develop performance indicators to track compliance with sustainability targets.

2014: Mandatory Resolution on Environmental and Social Responsibility
- Launched by BACEN, the Resolution strengthens risk management and introduces the concept of relevance and proportionality of E&S risks.
- It adds to the voluntary Green Protocols issued in 2008 (for public banks) and 2009 (for private banks).
- Between 2008 and 2011, the Central Bank also issued regulations on protection of the Amazon Biome, sugar cane investments, slave labor, and the internal capital adequacy assessment process (ICAAP).
Key elements of Brazil’s approach

1) Inter-agency collaboration
   • Launch of the mandatory Resolution on E&S responsibility involved internal cooperation and high-level dialogue between public entities.

2) Monitoring portfolio risk
   • The Central Bank has required the establishment of a database to capture losses that result from social issues and also constituted a working group to discuss these issues.
   • FEBRABAN recently completed the database to capture indicators on social issues, and have made a guide available to local banks.

3) Focus on high-risk sectors
   • In sectors that are more likely to have E&S impacts, special due diligence is required on the part of banks, such as proof of business compliance and an action plan.
   • These requirements have been defined by the national environmental agency and exist as a management tool.

4) Capacity building
   • BACEN and IFC formed a partnership to provide capacity building for BACEN supervisors, in order to strengthen knowledge of ESRM and support the implementation of the Resolution on E&S responsibility.

Highlights:
• 10% of corporate loans in Brazil are now directed to the green economy. Agribusiness is one of the most important sectors.
• Brazil has a national goal to reduce carbon emissions by 36% by 2020. The National Climate Change Policy (2009 Law 12.187) establishes national GHG emission reduction commitments and mechanisms to achieve them, including financial sector support through credit lines and incentives.
3.4. CHINA

The China Banking Regulatory Commission (CBRC) co-hosted the first International Green Credit Forum with IFC in Beijing in 2012, and is a founding member of the SBN.

With the leadership of CBRC, China adopted a mandatory approach to sustainable banking to help tackle profound environmental problems and support the transition to a green, inclusive and resilient sustainable growth path.

Overview of China’s sustainable finance journey

2007: Green Credit Policy
• Jointly developed by the CBRC, People’s Bank of China (PBOC), and the Ministry of Environmental Protection (MEP).
• High-level policy document to send a strong signal of the political will and commitments from three agencies to tackle E&S issues in banking.

2012: Green Credit Guidelines
• Developed by CBRC to guide implementation of the Green Credit Policy.
• Comprises 3 pillars: E&S risk management, green lending to support the Green Economy, and greening banks’ own operations.
• Benchmarked with international standards (IFC Performance Standards and Equator Principles)
• Contains requirements on information disclosure.

2014: Green Credit Monitoring and Evaluation Mechanism
• Introduced by CBRC to track results of banks’ green credit performance and provide specific indicators to ensure policy objectives are met.
• Consists of the Green Credit Statistics System and Green Credit Key Performance Indicators (KPIs).

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23 [http://bit.ly/1NX6Hc0](http://bit.ly/1NX6Hc0)
24 [http://bit.ly/1k1rQcZ](http://bit.ly/1k1rQcZ)
The Green Credit Statistics System is a mandatory official reporting system that all banks are required to file with CBRC every 6 months. Banks must provide data on i) lending to projects under regulatory enforcement action by the environmental, safety and occupational health regulators, and to projects that use phased-out technologies as per relevant industry guidelines; ii) lending to 12 categories of green credit lending as defined by CBRC based on extensive consultation with industry ministries and the environmental regulator.

The Green Credit Statistics System also provides a tool for banks to calculate the environmental benefits gained through green credit lending, including carbon emission reduction, reduction in water pollution (chemical organic demand (COD)), and water saving.

The Green Credit KPIs consist of 85 quantitative indicators and 17 qualitative indicators to assess performance and implementation by FIs, including tools developed and used by banks, training and capacity of bank staff, and use of external technical consultants.

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.

2015: Credit Guidelines on Energy Efficiency Financing

Jointly developed by CBRC and the National Development and Reform Commission, which is responsible for climate change and energy efficiency policies.

Analyzes energy efficiency opportunities and risks for banks, and shares two mature credit products as well as risk management approaches.

Key elements of China’s approach

1) Inter-agency consultation and collaboration

CBRC partnered with the MEP to provide company environmental compliance data to banks and joint trainings on environmental laws and regulation.
2) **Integrating international good practices with local requirements**
   - Partnership with IFC to benchmark the Green Credit Policy with IFC Performance Standards and other international good practices.
   - Collaboration with other international organizations and Equator Principles Financial Institutions on experiences and case studies.

3) **Broad consultation with banking sector and piloting with leading banks**
   - Testing and integrating bank implementation experience through consultation workshops.
   - Good practices shared by leading banks, including E&S risk categorization, cross-functional task forces to lead green finance, and use of external E&S consultants to review high-risk projects.

4) **Capacity Building**
   - For regulators: CBRC and IFC partnership to build capacity of CBRC supervisors.
   - For banks: Dissemination of best practices and sector-wide capacity building led by CBRC and the China Banking Association (CBA), including Green Credit training book and trainings.
   - For supporting institutions: CBA and IFC partnership on Train-the-Trainer programs.

5) **Incentives**
   - Green Credit implementation is a component of a bank’s performance and is considered when reviewing bank applications for business expansion or opening new offices.
   - KPIs serve as basis for Green Bank rating by CBRC, which will complement the existing CAMELS rating of bank performance.
   - Banks are encouraged to securitize green credit assets and issue green bonds.

**Highlights:**
- Thanks to the Green Credit Statistics System, CBRC publicly discloses aggregate green credit lending data. Green Credit loans are classified into 12 broad categories with further sub categories.

- At the end of 2014, the loan balance towards green credit of leading banks was 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 banks’ portfolios. In addition, banks also report to CBRC the data on their exposure to high-risk environmental, health and safety issues, which CBRC tracks for regulatory use.

- Green Credit in China’s banking industry is having an effect on China’s broader financial market. The Chinese government announced the Green Finance work plan in September 2015, which covers the capital markets and insurance industry in addition to banking. This signals a broad sustainable finance agenda.

3.5. COLOMBIA

Colombia’s banking association (Asobancaria) joined the SBN in 2012. Together with leading banks, Asobancaria has adopted a voluntary approach to sustainable finance for Colombia in response to growing environmental concerns.

Colombia is the second richest country in the world in terms of natural species, including prairies and parts of the Amazon. It has suffered the costly results of climate change and impacts of El Niño, which have led to significant financial losses in addition to impacts on communities. Environmental risk management has therefore become more crucial to financial strategy.

**Overview of Colombia’s sustainable finance journey**

**2012: Colombian Green Protocol**

- Voluntary set of guidelines for sustainable finance developed by Asobancaria in conjunction with the Ministry of Environment and Sustainable Development.
- The Green Protocol was signed by the President of Colombia, Asobancaria and 12 FIs, including the major commercial and development banks.
- Focus on four strategies: i) designing green products and services, ii) E&S risk assessment, iii) efficiency, and iv) reporting and dissemination.
- Based on initial series of roundtables led by the different FIs involved.
Key elements of Colombia’s approach

1) Inter-agency collaboration
   - The Ministry of Environment and the Planning Department are actively participating in the development of green products, tax incentives and guidelines for E&S service providers, as well as training for FI staff on green products.
   - The Green Protocol Committee is participating in the government initiative called Sisclima (National System on Climate Change).
   - New FIs have been incorporated, such as the National Development Finance entity.
   - The national environmental agency has assisted in developing environmental procedures for FIs' credit processes.
   - The Ministry of Environment collaborated in the development of an environmental footprint calculator and workshops on green business opportunities.

2) FI knowledge sharing
   - Signatory FIs advanced in ESRM are sharing knowledge with FIs starting the ESRM process.
   - A number of bilateral and group meetings have been held within the Green Protocol sessions.
   - A working group was set up to develop products and identify needs for financing.
   - An e-learning course is being developed to educate FIs about green products and services.

3) Sector-specific risk management
   - Standardized approaches are being developed to analyze and assess E&S risks for each sector and industry. Particular attention is being given to strategic sectors such as energy.

Highlights:
   - The Green Protocol has had a significant impact: 33% of FIs have increased their green credit lines and there has been a 37% increase since 2012 in terms of ESRM system implementation.
3.6. INDONESIA

Otoritas Jasa Keuangan (OJK), the Indonesia Financial Services Authority, has been a founding member of SBN since 2012.

Led by OJK, Indonesia has adopted a sustainable finance roadmap to improve the resilience and competitiveness of financial services institutions. The roadmap enlists the financial sector to contribute to the national commitment to address climate change, including mitigation, adaptation and the transition to a competitive low-carbon economy.

Overview of Indonesia’s sustainable finance journey

2014: Roadmap for Sustainable Finance in Indonesia 2015-2019
- Launched in December 2014 by OJK (Otoritas Jasa Keuangan), the Roadmap sets out an integrated work plan for banking, capital markets, and non-banking sectors.

2015: Implementation
- Finalization of an umbrella policy on sustainable finance in Indonesia, including banking, capital markets, and non-banking sectors.
- OJK has established a goal to expand investment in green and inclusive industries, which will create a larger market and wider activities for FIs.

Key elements of Indonesia’s approach

1) Integrated policy framework to green the wider financial ecosystem
- The Roadmap and Umbrella Policy intend to provide detailed and practical guidance for banking, capital markets, and pension funds to green the whole financial system in Indonesia.
- Supported by IFC and other international organizations, the Roadmap and Umbrella Policy are integrating international best practices with local context and characteristics.
2) **Awareness raising and capacity building**

- Partnering with the Ministry of Environment and international institutions, OJK offered a series of seminars and trainings to FIs on environmental impact assessment and environmental risk analysis for green sector projects, such as renewable energy, energy efficiency, sustainable agriculture, and eco-tourism.
- Partnering with international institutions, OJK provides technical assistance to banks to improve their capacity to provide financing to green projects.
- Looking forward, OJK plans to enhance the capacity of banks in terms of environmental risk management, including credit, legal and reputational risk, and capital charge.

3) **Incentives**

- OJK is working with other ministries to develop incentives for sustainable finance, including risk guarantee facilities and concessional loans.
- OJK plans to launch sustainable banking awards to recognize leading banks in this area.

4) **Inter-agency consultation and collaboration**

- OJK 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.

**Next steps:**

- Issuance of policy on sustainable finance in Indonesia, which will cover principles of sustainable finance, priority sectors, and an action plan for banking, capital markets and non-banking sectors.
- Preliminary analysis and scoping meetings on potential establishment of an ASEAN (Association of Southeast Asian Nations) Forum on Sustainable Finance.
- Future green finance initiatives are expected to include green insurance and green bonds.
- Development of green financing products, schemes and lending guidelines.
- Indonesia will host the Sustainable Banking Network annual meeting in 2016.
3.7. KENYA

The Kenya Bankers Association (KBA) joined the SBN in 2015.

Led by KBA, Kenya adopted a voluntary approach to sustainable finance, aligned with the 2010 Constitution of Kenya and Economic Blueprint – Vision 2030. These require that development be done in a sustainable manner by all.

**Overview of Kenya’s sustainable finance journey**

**2015: Sustainable Finance Guiding Principles**

- KBA secured the mandate to coordinate the Sustainable Finance Initiative in 2013 on behalf of the industry, and worked with 12 banks to define the Guiding Principles.
- The Principles draw on global best practice, including the IFC Performance Standards, the Equator Principles, UNEP FI Principles, the Nigeria Sustainable Banking Principles, and the UN Global Compact.
- The Principles were adopted in March 2015 by the Kenya banking industry, led by KBA, during the 2nd CEO Roundtable on Sustainable Finance.
- KBA is now working with banks to ensure they have the capacity and resources to implement the Principles, and that there are local service providers to support them. Towards this end, KBA has developed an innovative e-Learning platform (sfi.kba.co.ke) for the industry.

**Key elements of Kenya’s approach**

1) *Alignment with national development agenda*

- Kenya is developing a national green economy strategy, with a clear development pathway embracing low-carbon development.
- Articles in the 2010 Kenyan constitution recognize a healthy and clean environment as a right, and call for sustainable management of land resources.
- Kenya has made progress on investment in green energy, including wind, geothermal and hydro; as well as on the social inclusion agenda, through the country’s leadership in the convergence between banking and mobile services.
2) **Embedding E&S risk management**
   - The next step is to embed understanding of E&S risks, business opportunities, and project appraisal in banking systems.
   - Kenya is taking a systemic approach in terms of sustainable finance by considering the role of other players, such as capital markets.

3) **Collaboration with international institutions**
   - KBA collaborated with UNEP, UNEP FI, DEG (German Investment and Development Corporation) and FMO (Dutch Development Bank) in the inauguration of the Sustainable Finance Initiative, and has been working most recently with IFC on capacity building of local consultants.

4) **Capacity building**
   - KBA launched an e-learning platform in December 2015 to build the capacity of the banking sector on ESRM and to implement the requirements of the Sustainable Finance Principles.
   - IFC, in collaboration with KBA, is building the capacity of local consultants and banks on ESRM.
   - Local case studies are being developed and are available at sfi.kba.co.ke.

**Highlights:**
- KBA officially launched the Kenya Sustainable Finance Guiding Principles and the e-learning platform on 1st Dec 2015. The launch was officiated by the Governor of the Central Bank of Kenya.
- The East Africa Bankers Committee, which is the regional body for bankers’ associations in the region, agreed in October 2015 to take up the Sustainable Finance Initiative as a 2016/2017 collaboration. The partner states will be supported by KBA to initiate country-level sustainable finance initiatives.
3.8. MONGOLIA

The Mongolian Bankers Association (MBA) and Mongolia Ministry of Environment, Green Development and Tourism joined the SBN in 2013.

Led by the MBA, with support from IFC, FMO and the Ministry of Environment, the Mongolian banking industry has taken a voluntary approach to sustainable finance to support the “National Green Development Policy”.

Overview of Mongolia’s sustainable finance journey

2013: Joint Statement and Working Group on the Mongolian Sustainable Finance Initiative
- CEOs of Mongolian commercial banks and key stakeholders agreed to develop and release a joint commitment statement and establish a working group on Sustainable Finance.
- Joint statement signed by all commercial banks of Mongolia in November 2013.
- Sustainable Finance Working Group established to raise awareness and develop Principles.

2014: Development of the Mongolian Sustainable Finance Principles and Sector Guidelines
- Launched in December 2014 and took effect in January 2015.
- Provide a framework to help local banks integrate E&S considerations into lending decisions and product design.
- Sector guidelines cover mining, agriculture, construction, and manufacturing; sectors that form the backbone of Mongolia’s economy.
- Resulted from joint effort and consensus building by the Mongolian banking industry.
- Steering Committee established to oversee implementation of the Principles and provide guidance.

2015: Implementation of the Mongolian Sustainable Finance Principles and Sector Guidelines
- All participating banks have developed internal E&S policies and procedures and have hired full-time E&S staff.
- A voluntary reporting template was approved by the MBA for banks to report on a semi-annual basis.
- Annual award for Best Sustainable Bank introduced by the MBA from December 2015.
Key elements of Mongolia’s approach

1) **Consensus building**
   - Led by the Mongolian Bankers Association (MBA), and representing all Mongolian banks, the Sustainable Finance Working Group was established under the “Toc” brand to boost awareness and develop the Principles and industry guidelines to support banks in practicing sustainable finance.
   - Public awareness raising is also a key element of the initiative. The MBA is working on a public relations campaign for sustainable finance.

2) **Capacity building and incentives**
   - Since the launch of the Principles, efforts now focus on capacity building and design of incentives for sustainable finance.
   - The capacity building program aims to create meaningful and long-lasting local capacity for Mongolian banks and key regulators, such as Bank of Mongolia, to ensure the successful implementation of the Principles and sector guidelines.
   - With support from IFC, a Train-the-Trainer program has been conducted with representatives from 20 different institutions.
   - A training needs assessment was recently conducted with the help of IFC to identify sustainable finance capacity gaps.

3) **Sector checklists and guidelines**
   - The sector guidelines provide guidance to participating banks on how to assess potential E&S risks and opportunities in 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.
   - A model E&S risk assessment tool was approved by the MBA.
Highlights:

- The partners of the Mongolian Sustainable Finance Initiative have agreed to organize the Mongolian Sustainable Finance Forum every year to discuss progress and challenges related to implementation, as well as plans for the coming year. The most recent Forum was organized on Nov 23, 2015 with the theme "Green Credit Fund: Leverage for Sustainable Development".

- In addition to implementing ESRM, participating banks have been active in promoting the Principles related to financial inclusion, saving energy, and the green economy.

- The MBA is exploring the development of a Green Credit Fund as an incentive mechanism for FIs to adopt the Mongolian Sustainable Finance Principles and sector guidelines. The establishment of a Green Credit Fund would create a framework for cheaper loans to green projects, a reasonable return for investors, benefits for the environment and society, and opportunities to develop new financial products for financial institutions.

3.9. NIGERIA

The Central Bank of Nigeria (CBN) has been a founding member of the SBN since 2012. Also in 2012, the Nigeria Sustainable Banking Principles (NSBP) were launched by the Nigerian Bankers Committee comprised of leading banks. With CBN’s decision to supervise implementation, the adoption of the Principles has become quasi-mandatory.

The Nigerian banking sector plays a significant role in national economic growth and development. National E&S issues include population growth, urban migration, poverty, food insecurity, energy and infrastructure challenges.

Overview of Nigeria’s sustainable finance journey

2012: Nigerian Sustainable Banking Principles (NSBP) and Sector Guidelines

- Launched by the Nigerian Bankers Committee in July 2012, with 34 financial institutions committing to their implementation.
- Made quasi-mandatory with the decision by CBN to supervise their implementation.
• The Principles direct banks, discount houses and development finance institutions in Nigeria to integrate E&S risk considerations into their business activities and operations.
• The Principles cover 9 themes: E&S risk management, E&S footprint management, human rights, economic empowerment of women, financial inclusion, E&S governance, capacity building, collaborative partnership, and reporting.
• Sector-specific guidelines developed for 3 key sectors: power, oil and gas, and agriculture.

2013: NSBP Monitoring and Reporting Mechanism
• Developed by CBN to guide and monitor the implementation of the NSBP.
• Includes 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.
• Contains requirements on information disclosure to board committees, as well as annual reporting to stakeholders.

Key elements of Nigeria’s approach

1) Support by Central Bank of Nigeria
   • The role of CBN is threefold: i) endorse the principles, ii) provide the enabling environment and lead by example; and iii) monitor compliance.
   • CBN intends to expand the Principles to include the non-banking financial sectors.
   • CBN sees a need to develop a sustainable finance roadmap for Nigeria and has involved other regulators in order to address the huge funding gap for addressing sustainable development.

2) Sector guidelines
   • Sector-specific guidelines were initially developed for the power, oil and gas, and agriculture sectors. Selection of these sectors was based on their contribution to the economy as well as their impact on the environment. Going forward, sector guidelines for the mining and steel industries will be developed.
CBN has developed sector-specific checklists for banks to use when assessing E&S risks in lending and investment transactions, and has carried out site visits to banks’ customers.

3) Capacity building

- CBN has provided training and capacity building for senior managers of all Nigerian banks, so that sustainability can be discussed at the board level.
- Capacity building has also been provided for banks to report on performance.
- IFC is assisting CBN to develop internal capacity on sustainable finance, as well as in implementation of IFC’s ESRM Train-the-Trainer Program.
- UNEP FI is supporting capacity building of bank CEOs and other regulatory finance agencies.
- UNEP FI and the Sustainable Stock Exchanges Initiative (SSE) are supporting sensitization efforts around sustainable finance.

4) Incentives

- Incentives have been put in place for lending to women and to drive a certain percentage of funds to sustainable energy.
- Incentives are also in place to encourage lending in the agriculture space. CBN, in collaboration with the Ministry of Agriculture and Rural Development and the Bankers Committee, established the Nigerian Incentive-Based Risk Sharing System for Agriculture Lending (NIRSAL), a mechanism which aims to mobilize financing and reduce lending risk to the agriculture sector.
- CBN aims to institutionalize annual sustainable banking awards to recognize leaders in the implementation of the NSBP. The first NSBP awards are planned for 2016.

Highlights:

- At 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.
3.10. PERU

The Superintendency of Banking, Insurance and Private Pension Fund Administrators (SBS) of Peru joined the SBN in 2013 and co-hosted the 3rd International Sustainable Finance Forum in Lima in 2015.

SBS has taken a mandatory approach in requiring local banks to adopt E&S risk management to prevent systemic E&S risks in the real economy, such as the mining sector. A new regulation introduced in 2015 seeks to align local good practice with international standards.

**Overview of Peru’s sustainable finance journey**

**2015: Regulation for Social and Environmental Risk Management**
- Launched by SBS in March 2015.
- Establishes requirements for E&S risk management to encourage FIs to implement best practice and prudent decision-making.
- 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.

**Key elements of Peru’s approach**

1) *Reinforcing existing efforts by banks*
   - The Regulation on E&S risk management has found a fertile base in the industry. Banks already had systems in place, which served to create a level playing field.

2) *Aligning with international standards*
   - In developing the regulation, SBS conducted extensive consultation to ensure consistency with international standards.

3) *Institutionalizing best practices*
   - The new regulation covers the risk factors to be assessed by financial firms; the process of risk categorization; the conditions that trigger the need for an independent review and a management plan; and the inclusion of loan agreement clauses, which commit the borrower
Expected results:

- A level playing field so that lenders are not forced to compete on offering lenient standards.
- Faster implementation of best practice to identify, evaluate and mitigate risks of specialized lending, particularly in project finance.
- Improved abilities to enhance banks’ corporate governance and inter-area coordination.
- Greater awareness and uptake of voluntary initiatives, such as green protocols or the Equator Principles.

3.11. VIETNAM

The State Bank of Vietnam (SBV) and the Ministry of Natural Resources and Environment (MONRE) have been founding members of the SBN since 2012. Led by SBV, Vietnam has adopted a mandatory approach to sustainable finance to support the national Green Growth Strategy.

Overview of Vietnam’s sustainable finance journey

2015: Directive on Promoting Green Credit and Managing E&S risks in Lending Activities

- Issued by the State Bank of Vietnam (SBV), with support from IFC.
- Requests all FIs operating in Vietnam to set up an E&S risk management system and develop innovative products to enable lending to environmentally and socially friendly business activities.
- Specifically, FIs are requested to (i) develop and implement green credit policies; (ii) develop and implement measures to manage E&S risks in credit activities; (iii) actively communicate about ESRM and green credit policies; and (iv) report to SBV periodically on their E&S performance.
Key elements of Vietnam’s approach

1) **Capacity building and awareness raising**
   - SBV has partnered with international and local technical partners to organize both awareness raising and in-depth trainings for FI staff and leaders.
   - Awareness raising and capacity building will also be conducted for SBV inspectorates and other staff to strengthen their supervisory and enforcement capacity.

2) **Sector checklists and guidelines**
   - SBV is developing sector-specific E&S due diligence checklists for approximately 5-10 key sectors. These will be the primary tool used by commercial banks to identify E&S risks when appraising loan proposals for those particular sectors.

3) **Monitoring and disclosure**
   - KPIs and reporting templates will be developed to enable SBV to monitor and evaluate implementation by banks.

4) **Inter-agency collaboration**
   - SBV is partnering with the Ministry of Natural Resources and Environment (MONRE); the Ministry of Labour, Invalids and Social Affairs (MOLISA); and the Ministry of Planning and Investment (MPI) to jointly implement the national Green Growth Strategy.

Next steps:
- Mainstream ESRM in the upcoming Circular on lending activities.
- Strengthen capacity among SBN supervisors and banks, with support from IFC and other partners.
4. Agenda

SEPTEMBER 16, 2015

Welcome Address: Vice Minister Enzo Defilippi, Ministry of Economy and Finance, Peru

Opening Speeches

• Dr. Daniel Schydlowsky, Superintendent, Superintendency of Banking, Insurance and Private Pension Fund Administrators of Peru (SBS)
• Mr. Morgan Landy, Director of Environment, Social and Governance Department, International Finance Corporation (IFC), World Bank Group

Panel Discussion 1: Sustainable Finance - Responding to Green Growth Needs

Moderator: Mr. Marcos Brujis, Director, Financial Institutions Group, IFC

Panelists:
• Ms. Ceyla Pazarbasioglu, Senior Advisor, Finance & Markets Global Practice, World Bank
• Mr. Mulya Siregar, Deputy Commissioner of Banking Supervision, Indonesia Financial Services Authority (OJK)
• Mr. Nick Robins, Co-Chair, United Nations Environment Programme Inquiry into the Design of a Sustainable Financial System
• Ms. Neydi Cruz, Deputy Director General, International Affairs Unit, Ministry of Environment and Nature, Mexico

o Mr. Rodrigo Pereira Porto, Head of Division, Financial System Regulation Department, Brazilian Central Bank (BACEN)

Panel Discussion 2: Sustainable Banking – Regulatory Guidance, Voluntary Initiatives and the Experience to Date

Moderator: Mr. Morgan Landy, Director of Environment, Social and Governance Department, IFC

Panelists:
• Dr. A’isha U. Mahmood, Special Adviser to Central Bank of Nigeria’s Governor on Sustainable Banking
• Ms. Xiaowen Li, Director, Research Department, China Banking Regulatory Commission
• Mr. Habil Olaka, CEO, Kenya Bankers Association
• Mr. Naidalaa Badrakh, CEO, Mongolian Bankers Association
• Mr. Andres Rojas, Vice President of Corporate Affairs, Asobancaria, Colombia

Panel Discussion 3: Managing Social Risks – Effective Stakeholder Engagement

Moderator: Ms. Robin Sandenburgh, Senior Manager, Environment, Social and Governance Department, IFC

Panelists:
• Ms. Ceyla Pazarbasioglu, Senior Advisor, Finance & Markets Global Practice, World Bank
• Mr. Mulya Siregar, Deputy Commissioner of Banking Supervision, Indonesia Financial Services Authority (OJK)
• Mr. Nick Robins, Co-Chair, United Nations Environment Programme Inquiry into the Design of a Sustainable Financial System
• Ms. Neydi Cruz, Deputy Director General, International Affairs Unit, Ministry of Environment and Nature, Mexico
Panelists:
- Mr. Paul Collazos, Head of Specialized Lending Risk Department, SBS
- Mr. Mario Sergio Fernandes de Vasconcelos, Head of Institutional Partnerships, FEBRABAN, Brazil
- Mr. Pablo De la Flor, Corporate Affairs Manager, Banco de Credito del Peru
- Mr. Ajay Narayanan, Head of Climate Business and Sustainability, Financial Institutions Group, IFC

**Panel Discussion 4: Greening the Global Financial Ecosystem – Innovations in Insurance, Pension Funds and Stock Exchanges**

Moderator: Dr. Michel Canta, Deputy Superintendent of Private Pension Fund Administrators, SBS

Panelists:
- Mr. Isaac Ramputa, Chairman of Batseta, the Association for Pension Fund Trustees in South Africa
- Mr. Mark B. Alloway, Chief Investment Officer, IFC
- Ms. Sonia Favaretto, Sustainability Director, Brazil’s Securities, Commodities and Futures Exchange (BM&FBOVESPA)

**Closing Remarks:** Mr. Carlos Pinto, Head of Andean Region, IFC

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**SEPTEMBER 17, 2015**

*Reflections from Day One:* Dr. Daniel Schydlowsky, Superintendent of SBS, Peru

**Dialogue - Basel Framework and E&S Risk Management**

Moderator: Mr. Ajay Narayanan, Head of Climate Business and Sustainability, Financial Institutions Group, IFC

Speakers:
- Mr. Paul Collazos, Head of Specialized Lending Risk Department, SBS
- Mr. Rodrigo Pereira Porto, Head of Division, Financial System Regulation Department, Brazilian Central Bank (BACEN)
- Mr. Marc Schrijver, Senior Financial Sector Specialist, World Bank

**Strengthening Partnerships for Sustainable Finance Development**

Moderator: Ms. Robin Sandenburgh, Senior Manager, Environment, Social and Governance Department, IFC

Panelists:
- Mr. Martin Peter, Head of State Secretariat for Economic Affairs (SECO) of the government of Switzerland in Peru
- Ms. Careen Abb, Banking Commission Coordinator, UNEP Finance Initiative (UNEP FI)
o Ms. Christina Poser, Advisor, Financial Systems Development, German Corporation for International Cooperation (GIZ)

**Network updates: Introducing new and existing members and their initiatives**

Facilitator: Ms. Rong Zhang, SBN Coordinator and Senior Policy Officer of Environment, Social and Governance Department, IFC

**Group Discussion: SBN Governance and Growth – the Path to Greater Collaboration and Impact**

Co-Moderators:
- Dr. Rudy Araujo, Secretary General of the Association of Supervisors of Banks of the Americas (ASBA)
- Mr. Morgan Landy, Director of Environment, Social and Governance Department, IFC

**Closing Remarks:** Mr. Marcos Brujis, Director, Financial Institutions Group, IFC

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Group discussion: SBN Governance and Growth - the Path to Greater Collaboration and Impact, facilitated by Dr. Rudy Araujo, Secretary General of the Association of Supervisors of Banks of the Americas (ASBA) and Mr. Morgan Landy (IFC), 17 September 2015, Lima, Peru
5. Useful Resources

For latest updates on the Sustainable Banking Network, visit www.ifc.org/sbn

First for Sustainability is an online platform hosted by IFC that provides information, tools and e-learning on sustainable finance and E&S risk management for financial institutions.
http://firstforsustainability.org/

For more information on IFC’s Sustainability Framework and related resources, including the IFC Performance Standards and the World Bank Group EHS Guidelines, visit http://www.ifc.org/sustainability

The Equator Principles is a risk management framework, adopted by financial institutions, for determining, assessing and managing environmental and social risk in projects.
www.equator-principles.com
CONTACT US

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