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

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Case Studies

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

Case Study 1  Bangladesh – Awareness raising, capacity building, monitoring, and enforcement to ensure regulator-driven ESRM implementation

Bangladesh Bank’s approach to helping banks and financial institutions implement ESRM has been developed and refined over the last decade. In 2009, Bangladesh Bank worked with IFC to draft Environmental Risk Management (ERM) Guidelines after consulting with banks and financial institutions. The Guidelines were launched in 2011 and directed financial institutions to integrate environmental risk management into their credit risk management procedures. Following changing policy priorities, for example as a result of the 2013 Rana Plaza disaster and Bangladesh’s commitments to the Sustainable Development Goals, Bangladesh Bank sought support from IFC to update the ERM Guidelines. After rigorous multi-stakeholder consultation, the social dimension was added and the updated Environmental and Social Risk Management (ESRM) Guidelines were launched in 2017, replacing the ERM Guidelines. In addition to incorporating social risk into banks’ risk management, the ESRM Guidelines provide a comprehensive framework to encourage and assist financial institutions in implementing an Environmental and Social Management System. The new Guidelines also enable Bangladesh Bank to monitor implementation through increased reporting requirements for banks.

Through the process of developing and refining the ESRM guidelines, Bangladesh Bank has learned the importance of raising awareness about E&S issues among banks to encourage implementation. The consultation process in 2010/11 consisted largely of sensitization training among the managing directors of banks. Bangladesh Bank had to convince banks of the importance of E&S risks and demonstrate how ESRM is relevant to the broader risk management framework. Bangladesh Bank also developed a capacity-building program to support bank managers and employees to implement an ESMS in their financial institution. Through this process, Bangladesh Bank observed a growing level of awareness and enthusiasm for risk management and sustainability in the financial sector.

Awareness raising and capacity building has been accompanied by monitoring and enforcement to ensure ESRM implementation. In Bangladesh, E&S risk is monitored alongside other banking risks and is linked to international and domestic regulatory approaches accordingly. In 2012, Bangladesh Bank integrated environmental risk management into its implementation of Pillar Two of the Basel II Accord. Through this, banks are required to maintain an additional capital buffer over the Capital Adequacy Ratio that accounts for exposure to environmental and climate risk. Bangladesh Bank collects data from banks to monitor their ESRM implementation, including the share of transactions with high E&S risk for each bank or financial institution and the actions taken by boards to address these transactions. Through this monitoring, Bangladesh Bank generates sustainability ratings for banks, which are incorporated within their overall CAMELS rating (the supervisory rating system used to classify a bank’s overall condition). Bangladesh Bank continues to adapt its approach to monitoring and enforcement to effectively engage with banks on ESRM implementation. Priorities include: (1) improving banks’ incentives to exceed the minimum requirements for ESRM implementation; (2) building supervisory capacity for assessing environmental and social risks; and (3) monitoring the impact of banking activities on the environment.

Key lessons from Bangladesh Bank’s experience in supporting ESRM implementation include the importance of:

- **Awareness-raising and capacity building** – banks initially didn’t understand the importance of E&S risks to their operations, but Bangladesh Bank worked extensively with managing directors of financial institutions to convince them of the business case for ESRM;
- **Comprehensive integration of E&S risks into the broader risk management framework** – through incorporating E&S risks into macroprudential regulation, banks were able to understand the importance of ESRM, and Bangladesh Bank was provided with the tools for enforcement;
- **Clear policy framework** – the success of ESRM implementation in Bangladesh is attributed to having a comprehensive policy that clearly specifies the activities required by banks, with a appropriate monitoring and enforcement;
- **Developing and refining ESRM guidelines over time** – through a gradual process, banks have been able to develop their internal capacity to implement their ESMS; and
- **Taking advantage of external resources** – in developing ESRM guidelines and supporting the implementation of them by banks, Bangladesh Bank has benefited from World Bank support to develop the financial sector in Bangladesh and has also made extensive use of peer learning within the SBN network.
Case Study 2  Kenya – Straightforward and voluntary reporting to promote industry-driven ESRM implementation

Sustainable finance implementation in Kenya has been voluntary and consensus driven. The Kenya Bankers Association has adopted a process of first raising awareness about environmental and social (E&S) issues among banks, followed by promotion of the practical implementation of environmental and social risk management (ESRM) through training and capacity building, with the expectation that reporting and compliance will follow once each bank’s internal capacity has been sufficiently developed.

In March 2019, the Kenya Bankers Association gained a mandate from banks to commence voluntary reporting. The issue of reporting had emerged from the 2018 SBN Global Progress report, which highlighted it as an area for development in Kenya’s sustainable finance journey. The Kenya Bankers Association is now in the process of developing reporting guidelines for ESRM to monitor how banks are integrating E&S considerations into their lending practices.

Although in the early stages of development, it has become clear that reporting requirements need to be straightforward and not arduous. A number of banks in Kenya have credit lines from DFIs, which already require banks to report on ESRM. The differing reporting requirements have created confusion and duplication. As such, the Kenya Bankers Association plans to launch reporting guidelines that are easy to manage and adhere to, with the expectation that these may be developed further over time.
Promoting green finance

Case Study 3  Bangladesh – Broader definitions and tailored processes to promote green projects

Bangladesh started developing a green project list in 2011 and published a detailed taxonomy in 2017, with 52 products in eight sectors/categories. After the issuance of the Green Banking Guidelines in 2011, Bangladesh Bank started working on this taxonomy because there were no standardized benchmarks, certifications, or accreditations in the country. Bangladesh Bank could not force banks to hire environmental specialists to create green project definitions and therefore has had to provide the knowledge in this area for green finance to progress. Bangladesh Bank created a taxonomy that details which sectors and what products within the sector qualify as green. These range from energy efficiency and renewable energy to waste management and environmentally friendly brick manufacturing.

Bangladesh Bank is slowly moving away from a more detailed taxonomy in favor of a broader green project definition. After developing the green project list, Bangladesh Bank created a product innovation/methodology that aims to help banks and FIs evaluate the financial profitability and environmental and social feasibility, as well as the risk of innovative green finance products. These assessments include cash flow forecasting and looking at resource efficiency and land contamination prevention, for example. They are currently working to produce standards and benchmarks for a broader set of products to establish a more comprehensive and sustainable policy.

Based on its experience, Bangladesh Bank recommends that other countries looking to develop green project definitions engage widely and tailor the process to country specifics. This means consulting with banks and financial institutions to gauge their knowledge about green finance and use this data to create an appropriate strategy. For example, where there is less knowledge, starting with a detailed taxonomy enables banks and FIs to accustom themselves gradually to the idea of green finance and projects. Where banks and FIs are more advanced, the strategy is to develop a broader taxonomy and allow these institutions to adapt it to their needs. In addition, seeking guidance more broadly from SBN, peer countries, and other international organizations is recommended.

Case Study 4  Kenya – Building on international taxonomies to accelerate national green bond development

Kenya developed green project definitions as part of its green bond guidelines in 2019, building on the taxonomy developed by the Climate Bonds Initiative (CBI). The taxonomy is detailed and contains both eligible sectors and excluded sectors, or those that can’t be considered green. The Kenyan Banking Association (KBA) worked closely with CBI to adapt the taxonomy to the Kenyan context, for example to include more water projects. This detailed taxonomy has made it easier to report and identify green assets.

From its experience, the KBA suggests that building on already established taxonomies can accelerate the process. The partnership between CBI, an organization with significant expertise developing green project definitions, and the KBA, with its expertise on the Kenyan context and banking system, produced an adapted taxonomy in much less time than if it was started from scratch.

Case Study 5  Kenya – Broad stakeholder engagement to empower the issuance of green bonds

Sustainable finance frameworks have provided the foundation for the development of green bonds. Kenya observed the need to align the financial industry with sustainable finance in 2012. This prompted an assessment of awareness and capacity in the industry, and it was found to be very low. Following from this, the KBA engaged at length with banks and financial institutions, providing training and recording what their priorities were. Building their knowledge in sustainable finance enabled the engagement and understanding around new asset classes, in particular green bonds.

Kenya started working toward developing green bonds in 2017; it issued the Green Bond Listing Rules in December 2018, and the Green Bond Guidelines were published in early 2019. Enabled by such policy infrastructure, Kenya issued its first green bond of $4.3 million in October 2019. The KBA, Nairobi Stock Exchange (NSE), Climate Bonds Initiative, Financial Sector Deepening Africa, and the Dutch Development Bank have been working together on the Green Bond Program. The program focuses on four areas of intervention: technical support for potential issuers; training programs for issuers and verifiers; regulation and policy research on demand for green finance; and green bond issuance for Kenya.

However, there have been several challenges on the way and the KBA is working to solve them:

- **Lack of awareness and capacity**: The KBA and its partners have engaged robustly with stakeholders via meetings, trainings, and conferences. In 2017-2018 it organized 14 events attended by 700 potential issuers, investors, and financial intermediaries. This has provided a platform for banks to align definitions, priorities, and principles. As a result, there is now a high level of understanding.
• The policy and regulatory environment is not currently facilitating green bond issuance. There is a controlled interest rate regime in Kenya that caps the lending rate for banks at 4 percent above the Central Bank rate. For issuing green bonds, this means that margins are too small for the bank to be a credible business case and the risks can be high. The KBA and banks have been engaging with government and regulators to address this challenge, notably by supporting a caucus in parliament on the SDGs and business.

Kenya issued its first green bond in October 2019. The Ksh 4.3 billion ($40 million) Climate Bonds Certified issuance will finance green and environmentally friendly accommodation for 5,000 university students in Nairobi. The Kenyan government is also due to issue green bonds this year and has been using the green bond guidelines developed during the Green Bond Program, which speaks to the success of this work.

The KBA found that engagement has been key to developing a green bond market and maintaining traction. The process has involved partnerships with many different stakeholders—investors, issuers, financial intermediaries, banks, politicians, and regulators—which is key to creating a lasting green bond market. Kenya’s goal goes beyond one green bond issuance: Engaging with stakeholders in all realms of green bonds should create the environment for a lasting green bond market and the sustainability of the Green Bond Program.

Case Study 6  Mongolia – Leveraging a sustainable finance framework to unlock green finance opportunities

Sector-wide adoption of a sustainable finance framework accelerates green finance development. The sustainable finance framework including the ESRM toolkit was developed in 2014 by the Mongolian Bankers Association (MBA) with support from IFC and FMO and adopted by all banks, which account for almost 90% of the Mongolian financial market. Since 2015, the MBA has implemented comprehensive trainings tailored to specific roles in banks to support the implementation and reporting of ESRM, and it an accompanying online learning tool in 2018. The Central Bank of Mongolia issued an official directive in 2015 to include sustainable finance reporting in banks’ annual reports, and a specific ESRM report is submitted on a voluntary basis. Placing emphasis on advancing sustainable and green finance, Mongolian banks have established a special entity called the Mongolian Sustainable Finance Association (MSFA) with a mandate to expand the sustainability agenda into all relevant economic sectors and become a sustainable finance regional knowledge center. MSFA, with membership of all banks, is now looking to expand into non-banking and non-financial sectors. The most recent development is the approval of the national green taxonomy, as well as pilot projects to introduce sustainable finance principles into priority sectors, energy efficiency and textile production.

Successful implementation of sustainable finance has served as a fundamental step to attract climate financing. Banks that have been leading their peers with a strong emphasis and commitment to the implementation of ESRMs have already started accessing green funding. The two Mongolian banks (Xac Bank and Trade and Development Bank) have been granted an accreditation from the Green Climate Fund (GCF). In addition, Mongolian banks together with the Government of Mongolia have submitted to GCF a project proposal to establish a green on-lending fund facility, called the Mongolia Green Finance Corporation, to increase accessibility and affordability of green funds for local banks and disseminate sector-wide green finance knowledge.

National Green Taxonomy development calls for technical and industrial capacity. To further promote green finance, MSFA with the support from Tsinghua University and IFC developed a green taxonomy. In December 2019, the national Green Taxonomy identifying 58 green activities in 8 sectors was approved by the Financial Stability Council of Mongolia after completing several nationwide stakeholder consultations. Starting in Q1 2020, banks have started reporting the green share of their lending portfolio to the Central Bank in line with the taxonomy, which paves the way for tracking and reporting of the banking sector’s contribution to the realization of the Mongolian Nationally Determined Contributions under the Paris Agreement.

Developing a tailored national green taxonomy stresses the need for industry-specific guidelines, rating standards, labels, and local verification capacity.

Mongolia has realized growing needs for green pipelines and capacity development. MSFA has identified construction and textile production as priority sectors to integrate sustainability principles and attract green funding. In line with this, MSFA has developed energy efficiency rating criteria, and is collaborating with the MBA and the German Corporation for International Cooperation (GIZ) to pilot the energy efficient affordable housing value chain by offering subsidized mortgage loans through nine participating banks. In the textile sector, MSFA has developed a sector-specific guideline and is now working to develop a green credit criterion. Through this work, MSFA will work to incubate 20 SMEs in line with sustainability principles and connect them with green funding offered by local banks.
Case Study 7  Nigeria – Issuing sovereign and corporate green bonds to finance NDCs

Nigeria published its Green Bond Guidelines in 2017, followed by the issuance of its first green bond at the end of 2017. The Guidelines, developed by the Federal Ministry of the Environment with the support of the Ministry of Finance, established how the proceeds of the bonds would be used, the policies and internal control procedures to manage the selection of projects, and the management of the proceeds and reporting. The Guidelines were developed for issuers as well as investors. Subsequently, the first Nigerian sovereign green bond was issued in December 2017, worth $29 million (UNEP Inquiry, 2017).

Nigeria started working toward issuing green bonds in order to finance its Nationally Determined Contributions (NDCs). The key driver was the need to finance the infrastructure gap in a sustainable way that takes environmental considerations into account. Indeed, in the Guidelines, the eligible projects are connected to NDCs and the first green bond was issued to finance renewable energy and afforestation activities.

Following the issuance of Nigeria’s first green bond, the Securities and Exchange Commission (SEC) of Nigeria began development of a non-sovereign green bond market in Nigeria. The SEC developed guidelines based on international practices with the assistance of the Climate Bonds Initiative. Toward the end of 2018, the SEC issued a regulatory framework called ‘Green Bond Issuance Rules’ (Independent Newspapers Nigeria, 2018). It complements the work already done by the Federal Government and aims to create a non-sovereign green bond market.

The first Nigerian corporate green bond was issued in 2019 and was the first certified corporate green bond in Africa. Access Bank Plc issued this first certified green bond, worth $41 million. It is a five-year bond with a 15.5% fixed rate and proves that a financial case can be made for green bonds in Nigeria, which had previously been a challenge (Whiley, 2019).

A lack of knowledge was the main challenge to overcome with the issuance of both types of green bonds, in addition to a lack of capacity at the SEC. Collaborating with international partners and leveraging international guidelines were critical to the process. The international guidelines provided a strong foundation to build and adapt to the national context, and this made the certification of green bonds easier. The SEC engaged with key international actors in the green bond space, including CBI, UN Environment Program, and IFC. These challenges have been overcome and Nigeria has become as a leader in green finance.
Financial inclusion

Case Study 8  Bangladesh – A three-pronged approach to policies, low-cost refinancing, and knowledge support

In Bangladesh, financial inclusion is conceived of as access to and use of a range of quality financial products and services provided by formal service providers to all segments of the population. A multi-dimensional concept, financial inclusion requires products to be affordable, suitable, and convenient; service delivery to protect consumers’ interests and dignity; consumers to have strong levels of financial awareness and literacy; and the financial market to be diverse and competitive (AFI, 2018a).

Bangladesh Bank has identified financial inclusion as a cross-cutting, high-priority objective that supports poverty reduction and contributes to inclusive and sustainable economic development. Financial inclusion increases households’ ability to invest and save, making them less vulnerable to shocks. It is therefore seen as a critical tool for improving Bangladesh’s resilience to both environmental and social risks, and is strongly linked to the sustainable finance agenda (AFI, 2018b).

Bangladesh Bank’s approach to financial inclusion has been three-pronged:

- developing facilitating policies for banks and financial institutions, such as for mobile and agent banking;
- providing funding support through low-cost refinancing schemes; and
- coordinating and providing knowledge support to other regulatory and government bodies.

Bangladesh Bank is unique in mandating that banks expand access to the financially excluded. In 2010, Bangladesh Bank mandated that banks must open half of their branches in rural areas. It also introduced No Frills Accounts, where state-owned commercial banks are obliged to administer basic accounts without fees or minimum balance requirements; these have been made available to farmers, garment sector workers, cleaners, recipients of social security, and other underserved groups. The accounts enable their holders to perform other financial operations such as receiving remittances and accessing formal credit.

The regulation and policy support for financial inclusion has been delivered in conjunction with key financial infrastructure and innovation. Since 2010, initiatives have included a fully automated payment clearings system; Electronic Fund Transfer; and National Payments Switch and Real Time Gross Settlement.

Bangladesh Bank has experienced substantial success in its efforts to promote financial inclusion. The proportion of adults with a financial account increased from one-third in 2011 to one-half in 2017. This is supplemented by substantial growth at the level of specific service delivery channels. Between June 2017 and 2018, the number of agent banking accounts more than doubled, to 18 million.

Bangladesh Bank aims to publish a National Financial Inclusion Strategy. This national strategy will provide a roadmap for ensuring cooperation and coordinated action by the government, the private sector, and other stakeholders, and should help support increased integration of financial inclusion and broader sustainable finance goals and delivery approaches.

Case Study 9  Nigeria – Establishing economic links between smallholder farmers and large-scale agricultural processes

The Central Bank of Nigeria established the Anchor Borrower’s Program (ABP) in 2015 to deepen financial inclusion through the creation of economic linkages between smallholder farmers and large-scale agricultural processes. The program aims to alleviate the impacts of climate change on smallholder farmers by providing Revenue Index Insurance, which provides automatic payouts to farmers based on predicted crop yields using satellite data on precipitation. By early 2020, the ABP has created over 250,000 direct jobs for farmers and up to 1.25 million indirect jobs.

Case Study 10  Nigeria – Promoting financial inclusion through agent banking, mobile banking and payments, linkage models, and client empowerment

The Central Bank of Nigeria’s approach to financial inclusion has included a number of regulatory actions to increase the supply of financial services, and these could be incorporated into sustainable financing frameworks in other contexts. Nigeria’s experience provides key examples of ambitious approaches that are well aligned with a broader roadmap for sustainable finance. It also demonstrates some of the challenges of this approach.

The Central Bank of Nigeria (CBN) adopted the National Financial Inclusion Strategy in 2012, with an ambitious target of reducing the portion of the adult population that is financially excluded to 20 percent by 2020. The strategy was fourfold:

- Agent banking – delivering banking services outside of traditional bank branches;
- Mobile banking and payments – access to financial services through consumer technology;
• **Linkage models** – cooperation between banks, government, and microfinance institutions; and

• **Client empowerment** – financial literacy and consumer protection.

**Implementation of these strategic priorities required CBN guidelines and frameworks**, including tiered know-your-customer requirements; agent banking regulation; the national financial literacy strategy; and consumer protection policies.

The CBN has acted to address the challenges on digital financial services through a number of supply-side and regulatory actions, including

• signing a 2018 memorandum of understanding with the Nigerian Communications Commission on digital payment systems to take greater advantage of innovative models that have substantially increased financial inclusion in other countries;

• levelling the playing field between providers via Payment Service Bank licenses in order to increase the category and number of digital financial service providers;

• harmonizing ‘know-your-customer’ requirements for opening and operating accounts and mobile wallets on all financial services platforms, a key priority in the 2018 Financial Inclusion Strategy; and

• establishing a regulatory sandbox to support the development of innovative financial services, in partnership with the Nigeria Inter-Bank Settlement System (NIBSS).

The CBN has also focused on enabling the rapid growth of agent networks. To increase the extension of agent banking, the CBN launched the Shared Agent Network Facility to roll out 500,000 agents to extend financial services to people in excluded regions. As a result of the national financial strategy and its implementation, the exclusion rate had dropped to 41.6% in 2016 from 46.3% in 2012, and continues to trend downward.

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**Case Study 11  Collective Experiences – Leveraging sustainable finance frameworks to address social issues**

SBN IDA members could leverage sustainable finance frameworks to attract the finance flows needed to address social issues, similar to the way green finance can be used to address environmental issues.

Financing solutions for addressing social issues typically fall under the impact investment umbrella. Three guiding principles are used to differentiate impact investment: (UNDP, 2019)

- the expectation of a financial return;
- the intention to tackle social or environmental challenges; and
- a commitment to measuring and reporting against the intended social and environmental impact.

Impact investment is not limited to a specific asset class or sector, and can include venture capital, private equity, and other types. One instrument used for impact investment is social and development impact bonds. These are public-private partnerships that allow private investors to front capital for public projects that deliver social outcomes. If the project succeeds, the investors are repaid. Social and sustainability bonds are also growing in popularity, building on the success of green bonds. These bonds are similar to traditional bonds, except that they promise to achieve social and sustainability impacts, often aligned with the sustainable development goals (SDGs).

To support the flow of sustainable development finance, SBN IDA members can help build the credibility of green and social impact instruments, for example by developing clear definitions and taxonomies and promoting integrity standards to prevent ‘impact-washing.’
Agriculture and SME finance

Case Study 12  Bangladesh – Agricultural and rural credit policy to promote finance to the agriculture sector

The Agricultural and Rural Credit Policy issued by Bangladesh Bank comprehensively promotes finance to the agriculture sector. Through the policy, banks

- are to set a comprehensive annual program for financing agriculture, which includes a list of priority financing areas and an annual target;
- are provided with access to refinancing facilities for sharecroppers, milk production and artificial insemination, and jute production;
- benefit from an interest rate subsidy for loans to maize, pulses, oilseeds, and spices; and
- are obliged to prioritize disadvantaged farmers, including women, tribal, and coastal farmers.

The policy has been effective in increasing finance to the agriculture sector. Key factors in the success of the policy include the following:

- Regionalization – the annual program is set through regional Agricultural and Credit Committees, which are multi-stakeholder groups operating within specific districts;
- Cooperation with the Agricultural Ministry – the Agricultural Ministry works with the Committees to inform them of priority agricultural commodities and their specific financing needs (such as crop cycles), which enable the policies to provide finance in a timely and efficient manner; and
- Efficient delivery – banks are encouraged to use microfinance institutions as a delivery channel, which enables them to achieve penetration across dispersed rural areas and address financial inclusion challenges.

Case Study 13  Nigeria – The Central Bank of Nigeria expands finance to the agriculture and SME sectors through development finance operations

The Central Bank of Nigeria (CBN) has supported the expansion of finance to the agriculture and SME sectors through its development finance operations. The Development Finance Department formulates and implements the policies and innovations needed for financial institutions to deliver services efficiently and sustainably.

The CBN implements a number of schemes to support finance to agriculture and SMEs, including the following:

- Agricultural Credit Support Scheme – which disburses loans to farmers and agro-allied entrepreneurs. Banks grant loans to qualified applicants at a 14 percent interest rate, but applicants that repay on schedule receive a rebate of 6 percent, such that the effective rate of interest for farmers is 8 percent.
- Commercial Agriculture Credit Scheme – through which participating financial institutions disburse loans to commercial agricultural enterprises at a 9 percent interest rate, with the subsidy covered by the Central Bank of Nigeria.
- The MSME Development Fund in 2013 – which is split between developmental objectives such as grants, capacity building, and administrative costs (10 percent), and a commercial component (90 percent). Through the commercial component, participating financial institutions receive funds at a low interest rate (2 percent) for on-lending to MSMEs at a maximum interest rate of 9 percent per annum.
- Anchor Borrowing Scheme – which improves the linkages between smallholder farmers and agro-processors. Smallholder farmers and agro-processors agree that smallholders will sell their products to the agro-processors at harvest, and this agreement reduces the risk for banks to lend to smallholder farmers without collateral. In five years, the program has created over 250,000 direct jobs for farmers and up to 1.25 million indirect jobs.
- Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL) – which de-risks the agricultural sector. It has facilitated the lending of $375 million from commercial banks to agribusiness across the value chain; trained over 700,000 farmers on good agronomic practices and financial skills; and provided more than 500,000 smallholder farmers with quality agricultural inputs. It also has a Climate Smart Agriculture and Renewable Energy Business Unit to address climate-related risks in agriculture.
- National Collateral Registry – which seeks to expand credit to SMEs through enhanced acceptability of moveable assets such as equipment, machinery, vehicles, tricycles, crops, livestock, account receivables, inventories, and jewelry as collateral for loans by financial institutions. Established with IFC support, the Registry has assisted over 150,000 micro, small, and medium enterprises to access ₦1.2 trillion loans.
- Index-based insurance – in 2017 an insurance roadmap was launched that outlines the steps needed, with support from public-private partnerships, to develop new index-based insurance products. Index insurance triggers payouts based on an index that is correlated with agricultural losses, rather than actual losses. This reduces the costs of insuring smallholder farmers and the delays in processing payouts.
The CBN reports that key industry stakeholders have attributed the recent increase in bank loans to the agriculture sector to CBN interventions. In 2018, bank credit to the agriculture sector reached a record level of ₦2.2 trillion, equivalent to 4 percent of the total lending of commercial banks, a 16 percent increase from 2017.

Case Study 14  Collective Experiences – Proposed approaches to expanding agriculture and SME financing via sustainable finance frameworks

Expanding finance to the agriculture and SME sectors has not yet been consistently integrated with sustainable finance frameworks, but could be in the future. In particular, this could be used to encourage investment in improving the sustainability of these sectors, for example promoting environmentally friendly or green technologies within the agriculture sector or energy efficient equipment for SME business operators.

Mongolia and Nigeria have both developed tailored environmental and social (E&S) risk management guidelines for the agriculture sector. This supports local financial institutions to be better able to assess the environmental and social risk of agricultural activities and can encourage increased sustainability within the sector. Developing sector-specific guidelines in this way is more common among SBN IDA members and may reflect that the financial sector in these countries needs specific guidance to address E&S issues in priority sectors due to capacity constraints.

World Bank research (World Bank Group, 2016) indicates that integrating agricultural and SME finance into sustainable finance frameworks could involve

- requiring banks to develop a clear and effective agricultural or SME lending strategy, with particular focus on lending to improve the sustainability of the sector;
- encouraging banks to identify opportunities for expanding their lending to the agriculture or SME sectors; and
- ensuring banks manage and monitor their lending portfolios to the agriculture and SME sectors, and include this as part of their sustainable finance reporting requirements.

To support banks to deliver on the above, SBN members could

- develop processes to classify those agriculture projects and portfolios that achieve positive climate outcomes as ‘climate-smart’ based on a set of metrics;
- integrate agricultural and SME finance as components of sustainable finance frameworks, in particular focusing on improving the sustainability of these sectors;
- provide training to financial institutions to build capacity for agricultural finance and climate-smart agricultural finance, for example training staff on climate-smart interventions and the benefits of farmers adopting certain climate-smart practices and technologies;
- develop tailored environmental and social risk management guidelines to support banks to accurately assess risk when considering loans to businesses and to be informed about how they can encourage businesses in these sectors to be more sustainable through their lending practices; and
- collect and disseminate data on credit extended to these sectors, including credit extended for the purpose of improving sustainability in the sector.

Where SBN members are in the position to directly provide affordable credit to the agriculture and SME sectors, they should ensure that this credit is directed toward environmentally friendly investments. For example, in Brazil (a middle-income SBN member country), the ABC Program established by national resolution established green credit lines to support agricultural businesses’ investments in low-carbon technologies and processes (Getulio Vargas Foundation Center For Sustainability Studies, 2014).

Case Study 15  Collective Experiences – Proposed approaches to addressing market failures via sustainable finance frameworks

The activities SBN members can undertake to address the market failures associated with credit to the agriculture and SME sectors are unlikely to be integrated within sustainable finance frameworks. However, SBN members can integrate sustainability considerations and amplify their impact via the following types of activities:

- **Refinancing facilities** – as with the ‘expand finance’ section, preferential finance schemes should support investments in sustainability and climate-friendly technologies;
- **Risk-sharing systems** – climate risk insurance could be bundled with credit guarantees and risk-sharing mechanisms, and environmental and social risk could be fully integrated into these activities; and
- **Finance infrastructure development** – environment and social risk could be part of the risk information collected on borrowers and disseminated through credit registries to help create momentum within markets for adopting sustainable and climate smart practices.
Cast Study 16  Collective Experiences – Proposed approaches to integrating program-style activities into sustainable finance frameworks

Programmatic approaches could be used to extend sustainable finance to the agricultural and SME sectors. For example, as Bangladesh Bank encourages financial institutions to support entrepreneurs, sustainable finance frameworks could encourage banks and financial institutions to engage with the agricultural sector. Such a program could include:

• providing farmers with the understanding and skills they need to access financial services, including both credit and insurance (this could take the form of a help desk); and
• training farmers on climate-smart agricultural practices, so that they better understand the adverse effects of climate change on their production systems and how climate-smart practices could enable them to better mitigate and manage risk.
Access the SBN Necessary Ambition Report and associated Country Profiles at: www.ifc.org/SBNnecessaryambition