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

NECESSARY AMBITION:

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

June 2020

Tools for Sustainable Finance
Development and Implementation
Tools for Sustainable Finance Development and Implementation

As a first step, the following high-level planning tools were developed based on the findings of the SBN IDA Country Diagnostic Assessment and the eight associated Country Profiles. They reflect solutions and approaches tested by IDA countries to develop and implement sustainable finance frameworks.

These recommendations can be applied not only by SBN IDA countries, but also other SBN members and all emerging economies looking to develop sustainable finance frameworks and embed them in national financial systems.

Drawing on the SBN IDA country experiences, the follow six best practices emerged as being associated with effective design and implementation of a sustainable finance framework.

![Figure 1: Six best practices for developing sustainable finance in IDA countries](image)

1. Assess banks’ existing awareness & capacity for sustainable finance to inform strategies for sustainable finance development
2. Tailor approaches to developing and implementing sustainable finance frameworks to local market conditions
3. Collaborate and engage with key stakeholders in the financial sector to raise awareness and encourage ownership
4. Address capacity constraints through awareness raising and training activities, together with tool development and resources
5. Support knowledge-sharing among banks through forums or working groups of sustainable finance champions
6. Level the playing field through appropriate reporting and enforcement measures, such as integrating sustainability measures in regulator ratings

Source: SBN IDA Diagnostic Survey responses

About the SBN Necessary Ambition Report

This report provides a first-ever, in-depth investigation of the drivers and innovation that underpin market-level efforts to advance sustainable finance in low-income countries. Its findings are timely as the world responds to COVID-19. They confirms that

- **Continuous and significant progress** is being made by the poorest countries among the SBN network.
- **Building sustainability into financial systems** not only helps manage environmental, social, and climate risks, but also **de-risks markets to enable greater investment flows and deepened financial market development**.
- **Low-income countries are aligning and integrating their sustainable finance efforts** with lending to SMEs and women, investment in agriculture, and financial inclusion as essential components for resilience.

The report features rich insights, 16 case studies, 8 country profiles, and practical decision-making tools that will benefit any countries planning to leverage green and inclusive **stimulus to rebuild their economies while supporting climate action and sustainable development**.

The figure below provides common steps to develop and implement a national sustainable finance framework, with specific actions identified at each stage. The proposed actions can be taken in a different order depending on existing networks, institutions, drivers and priorities in place.

**Figure 2: Common stages and steps for developing and implementing sustainable finance frameworks**

1. **Trigger**
   - Synergy with the relevant national policy/strategy (e.g., commitment to the SDGs, the Paris Agreement on Climate Change, etc.) and awareness building on sustainable finance in the public and private sectors
   - Identification of a lead organization (selection of the framework development approach, e.g., regulator-driven or industry-driven) and key stakeholder mapping
   - Collaboration with leading international development partners and standard setters
   - Signaling the intention and determination to develop sustainable finance framework
   - Seek broader support from public and private sectors, secure support and commitment from the key stakeholders

2. **Engage**
   - Formation of a working group with representatives from the key stakeholders and drafting of the sustainable finance documents reflecting the country’s priorities and needs
   - Multi-stakeholder consultation and technical discussion, including domestic and international partners/stakeholders, to discuss and finalize the documents, potentially with public comment period
   - Launch of the sustainable finance document including supporting guidelines and tools
   - Information dissemination both locally and internationally

3. **Launch**
   - Development and issuance of other additional documents on data collection, monitoring, and reporting, and continuous improvement of existing documents
   - Gradual behavior change in the financial sector

**Source:** SBN IDA Diagnostic Survey responses and SBN Global Progress Report

The following strategies have been used by IDA countries to overcome common challenges they have faced in developing sustainable finance frameworks. The relevance of the practices to a specific country depends on that country’s stage in its sustainable finance journey. Figure ES 3 summarizes these practices.

**Figure 3: Best-practice solutions to overcome common challenges related to developing and implementing sustainable finance frameworks**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Solutions</th>
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<tbody>
<tr>
<td>A failure by banks to recognize the value of sustainability and prioritize sustainability over short-term profits;</td>
<td>Sensitization activities within financial institutions; to convince banks of the importance of sustainable finance and the benefits of adopting sustainable finance approaches.</td>
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<tr>
<td>Capacity constraints within financial institutions that limit their engagement with and/or ability to implement sustainable finance approaches;</td>
<td>Capacity building with financial institutions; through training of bank staff and developing additional resources to support the implementation of sustainable finance frameworks.</td>
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<tr>
<td>Limited national expertise to lead and inform the sustainable finance process;</td>
<td>Knowledge sharing and peer learning; through technical assistance within the SBN network and international exchange visits.</td>
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<tr>
<td>A wariness among banks of additional regulatory burdens from aligning with sustainable financing frameworks;</td>
<td>Encouraging industry ownership of sustainable finance frameworks; engaging with banks in the process of developing sustainable finance frameworks and, where appropriate, using a phased approach during the implementation of sustainable finance frameworks.</td>
</tr>
</tbody>
</table>

**Source:** SBN IDA Diagnostic Survey responses
Access the SBN Necessary Ambition Report and associated Country Profiles at: www.ifc.org/SBNnecessaryambition