SDGs & SOCIALLY RESPONSIBLE FINANCE (SRF) - CASE STUDIES FROM SELECTED AFI MEMBERS

CASE STUDY

CONTENTS

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Cover image: Women removing excess red onion skins at Shyambazar vegetable market, Dhaka, Bangladesh. July 2016. (Photo by: RubyRascal /iStock)

EXECUTIVE SUMMARY

This case study examines the role of financial institutions in achieving the UN Sustainable Development Goals (SDGs) through socially responsible finance (SRF), a broad range of political and commercial adjustments aimed at ensuring financial systems protect society and the environment.

This concept is explored through examples of credit and investment decisions, as well as a detailed assessment of Bangladesh Bank's role in reshaping the financial system to improve social and environmental outcomes.

While this document focuses largely on examples from Bangladesh, it also touches on experiences from Afghanistan, Bhutan, Costa Rica, Fiji, Georgia, Liberia and São Tomé and Príncipe that provide additional lessons from central banks facing comparable economic situations.

Finally, we look at global best practices by highlighting the work of the Alliance for Financial Inclusion (AFI) and banking guidelines, such as the Equator Principles (EP). This is followed by concluding remarks on how central banks can bring about positive change in the near future.

1. INTRODUCTION

As stewards of the financial system, central banks can play a critical role in a nation's plans to achieve the Sustainable Development Goals (SDGs). One of their key responsibilities is in shaping debate on the nature of sustainability, using their expertise to develop and apply the principles of socially responsible finance (SRF).

This document explores financial practices that foster inclusive growth while emphasizing the importance of social and environmental ethics. Bringing these principles to the foreground of policy debate puts the economy on a more sustainable growth trajectory, which is vital for the wellbeing of future generations.

The SDGs must be translated into meaningful debate and legislation. We are committed to reinforcing the nation's social and economic fabric and are mindful of how policies that are designed to mitigate environmental damage may have an effect on central bank objectives. This paper opens with a discussion of the SDGs, giving an overview of the scenario in Bangladesh and highlighting the challenges that are pertinent to sustainable financing in low-income countries.

Within the context of the development goals, we then provide a more detailed definition of SRF, examining the role of financial institutions. Finally, we look for lessons on best practices in fellow emerging economies, as well as high-income countries, to ensure that we have a robust national strategy that underpins sustainable growth.

A man is sitting in front of his shop in a small street at sunset moment, Rangamati, Bangladesh. September 2013. (Photo by: Tarzan9280/iStock)

2. MAIN CHALLENGES OF THE SDGs

Following the Millennium Development Goals (MDGs), which covered the period between 2000-2015, the UN set the SDGs for the subsequent 15 years. These goals provide an overarching guideline for all countries to adopt in accordance with their own priorities. In total, 17 goals with 169 sub-targets, were set, with the Rio 2012 UN Conference being one of the key stages of design and negotiation.

For a comprehensive list, see the UN's 2030 agenda for sustainable development. To review the 17 main goals, see the figure below:

Given the fundamental importance of central banks finance in completing any project, must keep all of these goals in mind. However, from a policy perspective, we can broadly structure the targets around different types of financial tasks.

To get a sense of progress in each category, Bangladesh makes use of the government's SDG tracker, which shows the trends across targets with readily available data.

GOALS ON POVERTY, HUNGER, AND SERVICE PROVISION

This first group comprises traditional economic policy objectives that are closely tied to a country's rapid industrialization. Bangladesh has achieved a monumental reduction in the number of people living on less than USD1.25 per day, which fell from 44 percent to 13 percent between 1991 and 2016. Hence, Bangladesh is on track to eradicate extreme poverty by 2030.

The UNDP highlights that rapid industrialization in Bangladesh requires careful management, as it risks creating new developmental challenges, such as rising inequality. Balancing economic growth with fair distribution of income is thus one of the key issues for industrializing countries.

Following from this, various targets run counter to rapid industrialization, and therefore will be difficult to achieve. To take one of the sub-targets as an example, halving the number of road traffic- related deaths will be complicated due to the increase in motor vehicles, thereby increasing the associated health risks.

Environmental targets are discussed in depth below; however, we must be conscious of what they are designed to avoid. Bangladesh is vulnerable to natural disasters, particularly those generated by global warming. Disaster relief and internal migration will most likely rise – indeed, the UNDP notes that "while the population is expected to stabilize at around 200 million, growing wealth and migration will place further strain on ecosystems and the living environment". While this may not become apparent in the next 15 years, if not adequately planned for, water-related natural disasters, and even hydro-political conflict, could derail the country's economic progress.

GOALS RELATED TO SOCIAL INEQUALITY

The SDGs focused on social inequality are particularly SDG5 Gender Equality and SGD 10 Reduced Inequalities. SDG5 contains the following sub-goals:

> Ending all forms of discrimination against all women and girls everywhere.

> Elimination of all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation.

> Elimination of all harmful practices, such as child, early and forced marriage and female genital mutilation.

> Recognition and value unpaid care and domestic work through the provision of public services; infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate.

> Ensuring women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

> Ensuring universal access to sexual and reproductive health and reproductive rights as agreed under the Programme of Action of the International Conference on Population and Development and the Beijing Platform for Action and the outcome documents of their review conferences;

> Undertaking reforms to give women equal rights to economic resources, and access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, under national laws.

> Enhancing the use of enabling technology, in particular information and communications technology, to promote the empowerment of women.

> Adopting and strengthening of sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels.

The SDGs provide a blueprint for reducing social inequality and ensuring no one is left behind. However, social divisions can entrench economic inequalities and lead to profound marginalization. Therefore, robust and sound financial systems are essential for supporting equal access to financial services. High loan asset impairment, measured by the ratio of non-performing loans to total loans for deposit takers, is a potential risk to the soundness of the banking system. For almost half of the 138 reporting countries, the percentage of non-performing loans to total loans was less than 5 percent, while the average median for the period 2010–2017 was 4.3 percent.

One of the main challenges for Bangladesh will be to address the gender gap, which currently stands at just under 30 percent, not only in terms of economic opportunity but also in terms of social and political empowerment. At all levels of society, job opportunities for women are worse than those for men, and discrimination persists within households and society as a whole. Women are not represented in Government cabinet posts and only have 19 percent representation in both the Houses of Parliament. However, there are now more elected women in office than ever before. The bank of Bangladesh neither has a female Governor nor Deputy Governor, and the members of Board of Directors are males. The prevalence of over 3 million women in the garment sector is helping to address the balance, yet a wide gap persists, and choices presented to women are often restricted. There still is work to be undertaken around women's equal rights with regard to economic resources such as land and property, but these are some of the most recent pieces of legislation that support women's social and economic empowerment:

(i) Women and Children Repression Prevention Act, 2000
(ii) Legal Aid Services Act, 2000
(iii) Mobile Court Act, 2009
(iv) Citizenship (Amendment) Act, 2009
(v) Domestic Violence (Prevention and Protection) Act, 2010
(vi) Acid Crime Prevention (Amended) Act, 2010
(vii) Vagrants and Shelterless Persons (Rehabilitation) Act, 2011
(viii) Human Trafficking (Deterrence and Suppression) Act, 2012
(ix) Children Act, 2013
(x) Deoxyribonucleic Acid (DNA) Act, 2014
(xi) National Education Policy, 2010
(xii) Comprehensive Early Childhood Care and Development Policy, 2013
(xiii) National Plan of Action to implement National Women Development Policy, 2011
(xiv) National Action Plan to Prevent Violence Against Women and Children, 2013-2025; and
(xv) National Action Plan for Combating Human Trafficking, 2015-2017.

Gender-responsive budgeting has been enacted in Bangladesh since 2009 to support the participation of women in a wide range of different programs. Various ministries have adopted gender-responsive budgeting, and accountable and responsible spending in their budget in support of the social and economic empowerment of women. Bangladesh is making headway in terms of educational attainment and has achieved parity at primary-school level in most regions, but is performing relatively poorly on indicators such as adolescent pregnancy, the proportion of young women married before the age of 15 and the proportion of women in managerial roles. Although the practice of giving dowries is now illegal, there is still much social pressure on families and this puts an increased burden of poorer families with girls, who are often seen as a burden. Perhaps the gravest concern is that rates of physical and sexual abuse are high by international standards. However, the government has shown its conviction towards supporting the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and the Beijing Platform for Action. Bangladesh has a Global Inequality Index (2018) value of 0.536, ranking it 129 out of 162[1]. Fortunately, these indicators are improving with time. However, policymakers must speed up the rate of activity if the country is to achieve targets by 2030.

Women carrying and filling water buckets pot from well in, Thar Desert, Pakistan. March 2019. (Photo by: SkycopterFilms Archives/Shutterstock)

GOALS RELATED TO ENVIRONMENTAL SUSTAINABILITY

From a policy perspective, everyone must be encouraged to reduce the scale of environmental damage by acting in a responsible way. Instilling sustainable practices across all sectors of the economy is a considerable challenge, as it often comes at a substantial cost, running against goals like poverty reduction in the short term. Rapidly industrializing countries face a considerable test in this respect as they are often encouraged to skip a stage in infrastructural development and opt for expensive, high tech solutions.

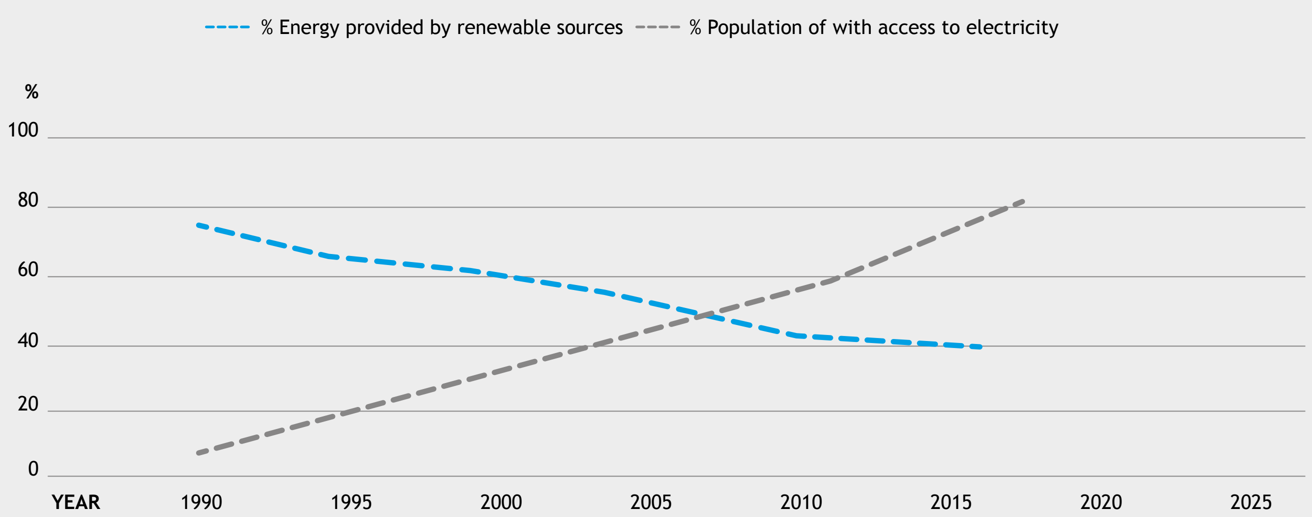
The figure below provides an insight into this issue as it highlights the inherent antagonism between different goals. The proportion of people with access to electricity, represented by the dotted blue line, increased from 7 percent in 1990 to 80 percent presently. This steady gain has coincided with a decline in the renewable energy share in total energy consumption, which has fallen from 73 percent to 38 percent over the period.

The progress Bangladesh has made in bringing its population onto the electricity network has been driven by an increase in energy supply, which has predominantly been non-renewable. There is an inherent trade-off, where more expensive technology may have upheld the proportion of renewables in energy production, but it would have drastically reduced the supply of electricity, and would have meant that Bangladesh would not have achieved the feat of electrifying the entire country in the space of four decades. Finding the right balance between economic and environmental objectives, and ensuring all stakeholders are aware of, and potentially compensated for, difficult trade-offs will be crucial for finding effective policy solutions.

As with all policy decisions, some actors may be inconvenienced by decisions taken to achieve the SDGs. Communicating with all stakeholders, particularly business leaders, about why they are being encouraged, or even forced, to adhere to certain standards, will be key to ensuring broad-based acceptance.

1 https://www.banglanews24.com/index.php/national/article/81653/Bangladesh-moves-up-a-notch-in-UN-Human-Development-Index

FIGURE 1: TRACKING CHANGES IN ENERGY CONSUMPTION AND AVAILABILITY



3. UNDERSTANDING SRF

Financial institutions are a large part of the solution to achieving the SDGs. Shifts in the behavior of financial actors can bring about a swift re-allocation of resources to businesses that are acting sustainably.

Socially Responsible Finance (SRF) refers to such efforts to adjust financial behaviour. However, due to the variety of financial actors, SRF encompasses a wide range of activities and thus must be defined in broad terms. Essentially, it is concerned with integrating ethical values into financial decision-making. The transition towards a more socially responsible financial system depends on the adoption, or enforcement, of a set of guiding principles that alters the decision-making process.

Various practices fall under the domain of SRF; however, they are all underpinned by notions of ethics. From a historical perspective, SRF dates back to the establishment of religious lending practices. Islamic finance, which forbids the lender from explicitly charging interest, is often taken as a principal example of responsible finance, as it is designed to reduce over-indebtedness of the poor. Over the course of the 1960s, the civil rights movement acted as a catalyst to the concept's development, incorporating new social investment criteria by urging investors to avoid companies whose behavior was deemed harmful. Socially Responsible Investment (SRI) is a related concept that also aims to channel funds towards sustainable firms. It comes in various guises, from divesting in oil companies and arms dealers, to providing equity to companies with high sustainability standards.

As responsible finance has become more mainstream it has been incorporated into the global institutional agenda. Hörnlein (2015) argues that the UN's Environmental Program Financial Initiative (UNEP-FI) in 1991/92 represented a critical juncture as it gathered disparate voices to form a concrete statement of intent by a supranational organization. This coincided with a shift in attitudes of certain investment bodies, particularly pension funds, which started to integrate sustainability criteria into their investment strategies. Given the considerable financial power of these funds, commentators began to re-evaluate the concept of responsible finance. This quickened the track of SRF from the periphery to the mainstream.

For some time, pension funds were deemed relatively left-field in their emphasis on sustainability, however over recent years, companies from across the commercial spectrum have started to factor it into their decision-making. Green and social investment funds have grown in popularity. Various institutions have devised policies to facilitate investors who are looking to fund companies with a good sustainability record. For example, in 2014, the EU made it mandatory for large companies to publish sustainability reports, forcing them to document their social and environmental impact.

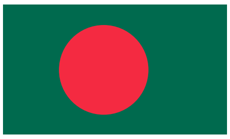
Whether we are evaluating the actions of investors or lenders, SRF is concerned with steering money towards businesses which take their social and environmental impact seriously. Central banks are more involved on the lending side, and therefore focus on the regulations and schemes that govern credit.

Here, it is important to make the distinction between a suggestive set of guidelines and legally binding regulations. Guidelines are often proposed as a set of rules that an actor should follow if they want to align with best practice, whereas failing to adhere to legally binding regulations exposes a company to risk of sanctions. Much of the development of SRF has been related to guidelines; however, regulators are increasingly inclined to force companies to act in a more sustainable way.

It is commendable when companies go above and beyond the call of regulations but we cannot necessarily rely on the efforts of the enlightened few. Having said that, in the banking world, many banks have started to adopt best practice guidelines, known as the Equator Principles (EP), which will be discussed in more detail below.

4. COUNTRY EXPERIENCES

BANGLADESH



Bangladesh's development vision calls for proactive policymaking to instil social responsibility into the formal financial sector. Bangladesh Bank (BB), the central bank and financial sector supervisor, has accordingly taken up a guiding role in mainstreaming SRF. Social responsibility is ingrained within the institutional ethos and strategic goals of Bangladesh Bank, which is pursuing a countrywide, inclusive finance campaign, taking on board all banks and financial institutions, private and public, local and foreign owned.

The campaign employs a coordinated approach across three interconnected elements of socially responsible financing:

- smallholder and sharecropper agriculture
- micro-, small- and medium-scale productive rural and urban enterprises (MSMEs)
- renewable energy generation, effluent treatment, and other projects to reduce the emission of greenhouse gases

BB has increasingly recognized its role in tackling social injustice, particularly gender inequality. Empowering women financially helps to create more women-owned enterprises. Not only does this have a direct positive macroeconomic impact but it has repeatedly been shown to lead to greater social empowerment. Working women exercise greater control over their finances, and participate more fully in decision-making, both at home and within broader society. Targeting gender empowerment therefore improves both social and economic outcomes. The bank works on gender empowerment at various levels; an action program to address gender bias has been developed across all levels and is central to achieving the multifaceted objectives of sustainable finance.

(I) SMALLHOLDER AND SHARECROPPER AGRICULTURE

BB requires all banks, both state- and private-sector owned, local and foreign, to maintain at least 2.5 percent of total assets in agricultural financing. Foreign owned banks use microfinance institutions (MFIs) as agents in their agricultural and SME financing. BB itself has recently been operating via a renowned MFI in a special scheme of channelling finance to sharecroppers, guaranteeing the credit for lending to the target group, which includes female borrowers.

Bank branch expansion into underserved rural areas is also being encouraged, alongside a campaign of opening no-frills bank accounts for poor sharecroppers, day labourers and others in the lowest income brackets. The minimum deposit is as low as (Bangladesh Taka) BDT10 (equivalent to 12 US cents at the time of reporting). The campaign has been hugely successful, with over 13 million new bank accounts already opened, a major milestone in financial inclusion. Besides the intended use for receipt of social safety net allowances and farming input subsidies, other payment, receipt and savings transactions are also increasing in these accounts.

After harvest farmers are putting fresh carrots in jute bags and preparing for export, Bangladesh. January 2020. (Photo by: Insight-Photography/Shutterstock)

(II) SMES

In order to compensate for cost disadvantages in promoting inclusive finance, BB operates large, donor-financed lines of refinancing credit for SME lending. There is a quota of 15 percent, which must be targeted towards women entrepreneurs. A government-funded subsidy is available to banks who offer low-cost financing for growing non-traditional new agricultural produce like spices, oilseeds, pulses etc. State-owned agricultural banks get occasional refinancing from BB, against government guarantees. Proactive promotion of agricultural financing is already paying dividends, drastically lowering food imports, which has the added return of boosting Bangladesh's foreign exchange reserves.

For MFIs engaged in supporting output activities of microenterprises, a moderately priced fund is available from the Palli Karma-Shayak Foundation (PKSF), a government-sponsored wholesale financier for promotion of rural employment. For efficiency enhancement in MFI lending, a donor-supported project of setting up a separate credit information bureau for information on MFI clientele segments is currently in progress.

(III) RENEWABLE ENERGY GENERATION, EFFLUENT TREATMENT, AND GHG EMISSIONS

A refinancing line funded by BB and a development partner is available to support investments in renewable energy, effluent treatment and other environmentally benign projects. This is already generating substantial progress in solar and biomass-based renewable energy generation, effluent treatment, use of new energy efficient kilns in brick making.

(IV) MOBILE-BASED FINANCIAL INCLUSION

BB must ensure that all individuals can make use of the financial system so that they can access key services as and when they are needed. The modernization of the country's payment system and ICT infrastructure has enabled rapid expansion of mobile phone and smart card based off-branch financial service delivery. Beginning with fund transfers - including inward remittances from workers abroad - the use of off-branch service delivery is now expanding to deposit taking, loan disbursement and loan recovery.

In the bank-led model opted for by BB in promoting mobile phone-based and other cost efficient off-branch financial service delivery modes, banks employ locally active area agents, including MFIs licensed by the Microcredit Regulatory Authority (MRA) for service delivery to clients in the local area. Client transactions are subject to KYC due diligence of varying levels of rigor, proportionate with transaction size and frequency.

CASE STUDIES FROM OTHER CENTRAL BANKS

Central banks in emerging and developing economies like Bangladesh are constantly networking to learn from each other's experiences. Various programs have been designed to align central bank programs with a socially responsible framework. Accordingly, this section looks at some case studies derived from SRF reports of other central banks.

AFGHANISTAN

Afghanistan incorporates SRF within its broader national development strategy, which views the private sector as the engine for growth. SMEs make up 80 percent of Afghan business, generate almost half the country's economic output and are the largest source of employment behind the agricultural sector. In the wake of the destruction caused by war and political instability, the agricultural sector has been resilient as one of the main drivers of the economy, whereas manufacturing industries have suffered. Having said that, rural areas have not experienced considerable economic growth in recent years, hence the Central Bank of Afghanistan (Da Afghanistan Bank) has launched a program to enhance financial inclusion and spur rural growth.

As part of their program, they have established a fully electronic movable collateral registry, which enables small business owners to use movable assets as collateral for credit, boosting access to finance.

BHUTAN

Bhutan's financial sector is relatively concentrated and has recently licensed a range of microfinance institutions, and enabled non-banks to engage in certain financial activities. To improve their social impact, they have drafted guidelines for agent banking and priority sector lending. For each of the MFIs that have been licensed, there is a different focus area to target key marginalized groups, including non-formal rural activities, women and children and social consciousness-driven private sector support.

They have also designed financial institutions to support agricultural communities, which offer seasonal loans, as well as banking services to rural farmers. The Bhutan Development Bank (BDB) provides working capital loans to commercial and agricultural enterprise and has taken over 205 community centres and provides door-to-door banking services via an outreach scheme.

COSTA RICA

Costa Rica's responsible finance revolves around three fundamental axes:

> Consumer Protection

> Financial Capability

> Responsible Providers

Of these, the first two are closely related to the regulations issued by regulatory bodies. However, since AFI already has a working group specifically in charge of these topics - the Consumer Empowerment and Market Conduct Working Group (CEMCWG) - they will not be dealt with in this document. The third point relates to commitments, practices, standards and voluntary initiatives in the financial sector (individually and at the industry level), so it is more oriented to self-regulation and not necessarily to regulations issued by regulatory bodies. The measures taken by financial institutions in relation to environmental, social and governance issues can be analyzed from two broad approaches:

> The impact of their direct operations in offices and branches, including their investments, which can lead to involvement in unsustainable practices (responsibility from the corporate side or Corporate Social Responsibility, commonly known as CSR).

> The influence they can have on the users of their products and services. As banks often provide the majority of external finance to companies, they can require firms to embrace sustainable business models. Bank lending potentially has more impact on sustainable business practices compared to the stock market.

Some examples of CSR policies applied by financial institutions in Costa Rica would be the following:

> BAC Credomatic has a program that encourages the recruitment of a diverse range of people regardless of gender, sexual preference or any other criterion that may cause discrimination. Within this program is an initiative entitled "we are inclusiveness", which focuses on hiring people with disabilities (PWD) ensuring equal working conditions. Sixty-four employees with disabilities have been incorporated to date; the goal is to reach 100. Additionally, the organization is in the process of adapting new products and services for (PWD).

> Cooperservidores R.L. applies a gender policy through which they have managed to place 53 women in leadership positions. This is out of 123 posts of coordinators, heads of department and management-level personnel. This figure amounts to 43 percent.

> Banco Nacional has a credit and debit card called BN Servibanca Verde, which donates 10 percent of the commission of each transaction to the Sustainable Biodiversity Fund. This product received an award in the contest Green Latin America.

> Financing of green activities: processing and recycling of waste, biodiversity protection, industrial pollution control, water sanitation, renewable energy, sustainable projects, etc.

> The design of environment-friendly products and services such as sustainable funds, green bonds and structured green funds to promote low carbon projects.

> Climate products such as investments in clean energy, sustainable agriculture and green infrastructure.

> Environmental and social risk evaluation in investment and credit-granting policies

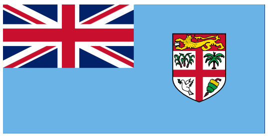
> Microfinance and microcredit to disadvantaged communities

> Socially Responsible Investing (SRI) applying the Principles for Responsible Investment (PRI)

To date in Costa Rica, there are no prudential regulations for financial institutions to apply a CSR policy or to offer responsible financial products, although some supervised financial institutions have already begun to venture into these fields on their own initiative. Therefore, it is necessary for the regulatory bodies of Costa Rica to come forward with regulatory guideline for shaping and boosting SRF to support the country's SDGs.

2 National Climate Change Policy, 2012. A Green Growth Framework - Restoring the Balance in Development that is Sustainable in Our Future 2014. Available at: https://www.greengrowthknowledge.org/sites/default/files/downloads/policy-database/A%20Green%20Growth%20Framework%20For%20Fiji.pdf. See also Fiji's 5- and 20-Year National Development Plans and Fiji's National Determined Contribution Implementation Roadmap 2017-2030. Available at: https://www.fiji.gov.fj/getattachment/15b0ba03-825e-47f7-bf69-094ad33004dd/5-Year-20-Year-NATIONAL-DEVELOPMENT-PLAN.aspx

FIJI



In Fiji, the government and the central bank have committed to provide sustainable financing to stay on course in achieving SDGs and climate-related targets. A number of initiatives that the Reserve Bank of Fiji (RBF) has introduced in this area include concessional lending for renewable and sustainable energy projects under its Import Substitution and Export Finance Facility (ISEFF) in 2010 and a Renewable Energy Ratio Requirement for commercial banks in 2012. The RBF is also drafting a Sustainable Finance Roadmap for Fiji with assistance from the Sustainable Banking Network in which the Bank is also a member. A roadmap for sustainable financing, which will be aligned to a number of national policies[2], was motivated by the Sustainable Financing Initiatives Workshop hosted by RBF in September 2017.

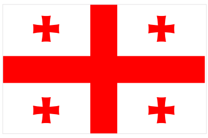
In addition to the above, the single largest initiative to date that both the government and the RBF have collaborated on in the SRF space is the issuance of a sovereign Green Bond. On 1 November, 2017, as part of its efforts to combat climate change and in the lead-up to the COP23 meeting which it presided over, Fiji became the first country in the southern hemisphere, the first in any emerging economy and the third globally to issue sovereign Green Bonds. The issuance of the fixed-income financial instrument by the Fiji Government, which was supported by the World Bank and the International Finance Corporation (IFC), was a timely one as proceeds were partly used to support ongoing rehabilitation efforts for the damage caused by Category 5 severe tropical cyclone (TC) Winston in 2016.

Fiji's 885,000 citizens and their livelihoods are at the forefront of combating climate change and for this reason, the country made access to climate finance a key pillar of its COP23 presidency. Furthermore, it sees the issuance of Green Bonds as an important tool to fund projects with economic, environmental and societal benefits, with a particular emphasis on the climate and natural environment. Apart from assisting the country to achieve its commitments under the 2015 United Nation Framework Convention on Climate Change (UNFCCC) Paris Agreement, funds from the (Fijian Dollar) FJD100 million Green Bond (equivalent to 46 US cents at the time of reporting) went towards the rehabilitation and construction of schools damaged by TC Winston; rainwater harvesting systems and landfill construction; funding for the Reducing Emissions from Deforestation and Forest Degradation (REDD plus) program, and the installation of solar home systems for rural areas.

To ensure credibility and transparency, Fiji's Green Bond framework is guided by the Green Bonds Principles, a set of principles and guidelines for broad market use. These include the Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting. In addition, an external independent verifier was engaged to provide a second opinion on the framework and confirmed that Fiji's Green Bond Framework is credible, transparent and aligned with the core principles. This provides assurance to investors that Green Bond proceeds will be reserved in a special account and directed solely towards eligible green projects which have been established and independently verified to have clear environmental benefits and promote the transition to low carbon and climate resilient growth.

A reporting and monitoring guideline was also developed to ensure compliance with the Green Bond Framework and any environmental and social risk assessment. This process concludes with a premium feature of Green Bond which is the annual release of periodical reports on the use of green bond proceeds and expected climate and/or environmental impacts of the projects until the bond matures.

GEORGIA



Georgia is a lower middle-income economy located in South Caucasus, with well-developed segments of the financial sector, encompassing 16 commercial banks and over 70 MFIs, regulated by the National Bank of Georgia (NBG), with branches represented in all regions of the country.

Over the past few years, the NBG has been working on the development of sustainable finance framework in Georgia. The NBG joined the Sustainable Banking Network (SBN) in September 2017. In this regard, one of the NBG's main tasks is to raise awareness about sustainable finance and guide the market towards more environment-friendly behavior. In order to do so, the NBG has been working on the Georgian version of the International Capital Market Association (ICMA) Green, Social and Sustainable Bond Principles. The translation will be published on the website of ICMA in the near future.

The NBG has also set out a roadmap for the next few years. In order to mitigate problems of informational asymmetry between the bond issuer and investor, the NBG plans to introduce normative changes to define Green Credit and Green Bonds. In addition, the NBG will launch Green Credit Guidelines that will be based on international practice, while taking into account the specificities of the Georgian financial system. Longer-term plans include introduction of Environmental, Social and Governance (ESG) considerations in corporate governance guidelines and identification of other possible regulatory actions.

In September 2018, in cooperation with the IFC, the NBG organized the workshop on sustainable finance. The workshop was aimed at becoming a knowledge-sharing platform for best practices in sustainable finance, for discussing the opportunities for Green Bond Market development in emerging countries, and for identifying possible regulatory actions to enhance the role of the financial system in managing environmental and social risks and mobilizing capital for green investments in Georgia.

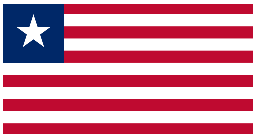
RESPONSIBLE LENDING FRAMEWORK

Responsible financial inclusion is important for the NBG. It must be noted that access to finance levels in the country are not low in quantitative terms as the most recent IMF Financial Access Survey shows the number of loan and deposit accounts in Georgia does not fall behind the analogous figures from comparable countries, and, in some cases, even exceeds them. Notably, there have been important developments in the direction of SME financing as well, and SME lending grows faster than corporate lending. However, access to finance alone is not sufficient for responsible financial inclusion.

Over the recent years, in line with the risk-based supervision principles, the NBG has taken consistent steps for developing a comprehensive responsible lending framework. The framework aims at promoting socially responsible finance, improving credit standards and portfolio quality, and effectively protecting consumers (including from over-indebtedness risks).

The actions taken towards developing this framework included, but were not limited to: introducing financial consumer protection regulation (covering first banks and later, all NBFIs under the NBG's supervision); establishing caps on effective APR; increasing capital requirements for commercial banks on loans that were issued without sufficient creditworthiness assessment, and establishing minimum PTI and LTV requirements for retail loans classified as "Standard". Most recently, the NBG introduced the requirement for commercial banks to thoroughly assess borrower creditworthiness prior to retail lending (which is also in line with the EU Consumer Credit Directive, to which the NBG must become compliant in line with the Association Agreement with the European Union), within certain limits. Through the draft Regulation on Retail Lending, the Bank also plans to establish lending criteria for all financial organizations falling under its supervision. Furthermore, the NBG is working on developing credit bureau regulations to minimize information fragmentation and to promote market transparency and responsible borrowing and on delivering financial literacy to individuals, as well as entrepreneurs, as this is an essential prerequisite for achieving sustainable financial inclusion.

LIBERIA



The Government of Liberia, through the Central Bank of Liberia (CBL), began to address the critical need of access to finance through innovative approaches since 2010. It launched a number of economic interventions - credit stimulus initiatives to impact sectors of the national economy.

Access to Finance Initiatives has three broad categories, namely, SMEs, agriculture and mortgage initiatives.

Fishermen sorting nets at Robertsport beach, Liberia. January 2014.
(Photo by: Fabian Plock/Shutterstock)

The CBL-SME Credit Stimulus Initiative was a policy intervention to broaden access to finance for Liberian-owned businesses. A facility placement made to six commercial banks provided loans to SMEs in sectors including retail trade, service, manufacturing, entertainment, petroleum, woodwork, transportation, etc. The Loan Extension and Availability Facility was launched in January, 2011 and has provided (Liberia Dollars) LRD400 million (USD2.06 million at the time of reporting) for low interest loans to MFIs, credit unions and village savings and loan associations all across Liberia. An Agricultural Stimulus Initiative recognized that agriculture is the main driver of economic activities in rural Liberia. The facility provided loans to farmers and farming cooperatives with a focus on the rehabilitation of pre-existing farms and with a preference for investments requiring minimal gestation periods. A Mortgage Initiative that was established aims to provide access to finance for the construction, purchase or renovation of primary homes.

In addition to a series of steps to improve the Legal and Regulatory Environment and to modernize the payment systems, the government of Liberia in coordination with the CBL took the following initiatives to ensure delivery of financial services to the doorsteps of those who need it the most.

THE RURAL COMMUNITY FINANCE INSTITUTIONS (RCFI) PROJECT

The Project was launched to address the lack of banking institutions in all of the political subdivisions of Liberia. The establishment of these Rural Community Finance Institutions is consistent with the government's focus on creating an inclusive financial environment through the delivery of financial services to the people of Liberia. Services being provided by these Rural Community Institutions include savings mobilization; checking accounts; loans; direct deposits, and money transfer services, i.e. MoneyGram and Western Union. The mobilization of savings in the rural communities also spur local investment and increase economic activity. These institutions also contribute to wealth creation in rural Liberia since the capitalization is based on shares purchased by residents in these communities.

REGIONAL CREDIT UNIONS

Four regional credit unions were established to support the professional development of the credit union sector. The project includes institutional support covering the necessary infrastructural and operational costs, funded under the UNCDF Microlead Program as part of a four-year technical assistance program.

MOBILE MONEY REGULATIONS

With the recognition that if mobile money and payment services, which are being adopted all over the world, were harnessed in Liberia they could rapidly upscale outreach of financial services to rural Liberia, mobile money guidelines were issued in 2009. These guidelines established a framework allowing mobile money services to be undertaken in Liberia by banks in partnership with telcos.

CREDIT REFERENCE SYSTEM

The Government of Liberia issued Credit Reference Regulations on the establishment and operations of a credit reference bureau. The purpose of these regulations is to provide the legal and regulatory framework for the establishment and operations of a credit reference bureau in Liberia. Since the issuance of those regulations, the CLB has been working with the IFC to this end.

SÃO TOMÉ AND PRÍNCIPE

The government of São Tomé and Príncipe has opted for a business incubation strategy. The mini-incubators, as they are called, cover a set of overlapping segments of the market and target women-headed households in the poorest part of the country. These women receive supervision for the development of micro-enterprises in the form of production tools, business training and managerial coaching. The entrepreneurs repay 50 percent of the cost of equipment (including amortization) and the total operation costs advanced in the start-up period. A quarter of the cost of investments will be refunded in the form of apprentice training. When factoring in direct and indirect employment opportunities, the project should generate more than 1000 jobs.

While the scheme represents an interesting model that uses subsidized credit to promote socially beneficial outcomes, this specific case comes with a caveat. The microfinance component of the programme was run by a third-party NGO which lacked the supervisory capacity to oversee the loan process in full. Ultimately this led to the unravelling of the project and therefore should provide a cautionary tale. SRF projects are often complex, involving a range of different actors, which exposes the operation to risks that may be out of the control of the central bank.

5. GLOBAL BEST PRACTICES

BB engages with a range of international counterparts, at bilateral and multilateral levels, to try to harmonize practices that protect consumers and the environment. Global standards are often developed within specific organizations, which often comprise a set of members, and frequently devise a set of implementable action plans. While stringent global standards often ensure comprehensive protection of consumers, at times they are difficult to implement in less developed financial markets. Hence, Bangladesh often turns to global actors with a focus on industrializing economies.

The Alliance for Financial Inclusion (AFI) is designed to structure the conversation to establish best practices for inclusive finance in the developing world. Financial policymakers and regulators in the AFI network are central to ensuring financial stability in their countries. They recognize the dual threats of financial exclusion and climate change as key barriers to financial stability.

Policymakers also recognize that financial inclusion is vital in helping the most vulnerable communities build resilience and mitigate losses that are caused by climate change. In 2015, Financial Inclusion was first linked with climate change and the SDGs, specifically Goals 1, 7 and 13:

1 NO POVERTY	7 AFFORDABLE AND CLEAN ENERGY	13 CLIMATE ACTION
GOAL 1	GOAL 7	GOAL 13
No poverty: end poverty in all its forms everywhere.	Affordable and clean energy: ensure access to affordable, reliable, sustainable and modern energy for all.	Affordable and clean energy: ensure access to affordable, reliable, sustainable and modern energy for all.

Between 2015 and 2017, an increasing number of AFI members voiced interest in scaling up peer learning on ways to develop and implement financial inclusion policies that also have positive environmental outcomes. This momentum culminated in September 2017 with the launch of the Sharm El Sheikh Accord on Financial Inclusion, Climate Change and Green Finance, endorsed by an overwhelming 94% of the AFI membership.

Mobile payment at a local vegetable market in Myanmar. February 2019. (Photo by: silentwings_M_Ghosh/Shutterstock)

With the basic elements of AFI's inclusive green finance program established, the Sharm el Sheikh Accord was put into action through the Nadi Action Agenda, agreed on at an AFI inclusive green finance conference in Nadi, Fiji in 2018.

Supported by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) of Germany, AFI launched the Inclusive Green Finance (IGF) program as part of the International Climate Initiative in 2018.

Over 2018 and 2019, some AFI members linked financial inclusion to climate change in their National Financial Inclusion Strategies, which led to AFI's development of the 4P framework in 2019, followed by the launch of the comprehensive report on national climate efforts.

A standalone Inclusive Green Finance Working Group (IGFWG) was established in September 2019 during the 2019 AFI Global Policy Forum in Kigali, Rwanda. Prior to that, three new sub-groups were formed within existing AFI working groups (Financial Inclusion Data WG, Financial Inclusion Strategy Peer Learning Group and SME Finance WG).

Inclusive green finance is a now an evolving policy area pioneered by AFI member institutions implementing policies, regulations and national strategies to mitigate or build resilience to climate change.

AFI members also committed to the Denarau Action Plan (DAP) in 2016 to increase women's access to quality and affordable financial services globally and bridge the financial inclusion gender gap. Targeting to accelerate the progress of women's financial inclusion by halving the financial inclusion gender gap across AFI member jurisdictions by 2021, the DAP contributes to women's economic empowerment and the Sustainable Development Goals 1, 5 and 10.

In specific policy areas, such as financial inclusion data, digital financial services and SME financing, AFI operates working groups that help to share successes and failures of specific policies. These are more targeted forums that help to share ideas about the role of finance in resolving key social and environmental issues.

Having considered supranational bodies that help to transmit global best practice, it is also important to acknowledge the work of other organizations that focus on specific components of the financial system. For example, the Equator Principles (EP) are a set of guidelines designed for commercial banks, governing lending and investment practices.

By making the decision to sign up to the principles, banks agree not to partake in certain financial activities, even though they are within their legal rights to do so. This represents an interesting departure from discussing the role of regulatory oversight, as here, companies are being encouraged, either by internal shareholders, or the customer base, to highlight their sustainability criteria and abide by a separate set of rules that may be more forward-thinking than their local regulations.

The economies that have some of the highest sustainability standards are the Scandinavian countries. Ensuring that sustainability is built into the physical environment is a recent trend that governments are aiming to support. In 2016, the government of Denmark produced a white paper entitled Financing the Green Transition[3], which highlights the significance of coordinated efforts within private-public partnerships in financing improvements in environmental outcomes across projects ranging from small building upgrades to large infrastructural investments. While these investments may have been too risky for the private sector, organizations like the Danish Climate Investment Fund[4] offer blended financing models that help to share the risk.

Public organizations in the developing world must step up efforts to incentivise companies to take risks with their capital that generate financial as well as economic returns. Inspiration can be taken from large infrastructural projects, as well as smaller projects to finance green constructions of commercial and residential buildings. In Denmark, political institutions are keenly aware that sustainability is not simply achieved by placing solar panels on the roof of buildings. Financial institutions can be incentivised to provide extra financing, for example 'green mortgages', where extra money is provided to construction companies at lower interest rates to upgrade the energy efficiency of their buildings. While BB operates a green financing scheme, these types of programs require constant support and funding to ensure that the scale of the response is proportionate to the scale of the problem.

3 https://stateofgreen.com/en/publications/financing-the-green-transition/

4 http://www.danishclimateinvestmentfund.com/

6. CONCLUDING REMARKS AND WAY FORWARD

CHANNELLING FUNDS TO SUSTAINABLE BUSINESSES

From a lending perspective, we must review lending limits and ratios, such as the amount that can be lent to women entrepreneurs without collateral, or the fraction of a bank's loan book that must be lent to the agricultural sector. While all actors are critical, ensuring that banks adhere to the rules set by the central bank will be crucial in bringing about widespread impact. Thus, not only should rules be reviewed, but the coming years will require greater monitoring of bank performance. Central banks should reward top performers and sanction those that fail to meet their responsibilities.

To encouraging a more ambitious set of rules for banks, the central bank should endeavour to increase the amount and effectiveness of its own subsidized credit lines to reduce the costs for firms making positive contributions to the economy's sustainability. Over time, the proportion of funds going to green enhancements should increase as current efforts are not sufficient to bring the economy in line with global environmental standards.

SUPPORTING INNOVATION TO ADDRESS MARKET FAILURES

Particularly for poverty reduction, we must ensure that innovations, epitomized by the technologies used by Fintech and Regtech companies, are harnessed to address market challenges, such as those that compound financial exclusion. This often requires prudent regulation rather than substantial investment. In practice, this requires effort on the part of regulators to develop a detailed understanding of emerging technologies, so that they can be brought to market quickly under a risk-proportionate framework.

Opportunities for fruitful public-private partnerships to achieve governmental objectives may be a way to enhance the scale and economic sustainability of government impact. An interesting area could be providing low-cost credit to companies working alongside public bodies to bring sustainable technologies to the market.

Investments, such as the national payments switch, have helped bring about much needed modernization of the country's financial infrastructure.

Spending to improve the interoperability and speed of financial transactions brings about widespread improvements but also requires considerable financial backing. The government should continue efforts particularly through prioritizing schemes to fully digitize government payments. Bangladesh is currently exploring the possibility of establishing a moveable collateral registry, as has been done in Afghanistan, which would help to enhance the institutions governing credit for the poorest in society.

IMPROVING CAPACITY AND COORDINATION ACROSS GOVERNMENT AGENCIES

All government agencies should be aligned with national sustainability priorities and should act as a united front. Coordination across agencies reduces opportunities for regulatory arbitrage and ensures that decisions are implemented quickly and effectively. Disagreements between ministries about the best plan of action should be addressed with compromise to establish a coherent strategy, rather than disjointed efforts.

Finally, we must be keenly aware of international best practices and learn from the successes and failures in comparable economies. Engagement in organizations like AFI is vital for keeping a finger on the pulse of global developments. This should help us to measure our relative successes and chart our future course.

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ABBREVIATIONS

AFI	Alliance for Financial Inclusion
BB	Bangladesh Bank
BDBL	Bhutan Development Bank
CBL	Central Bank of Liberia
CEMCWG	Consumer Empowerment and Market Conduct Working Group
DAB	Central Bank of Afghanistan (Da Afghanistan Bank)
EP	Equator Principles
FinTech	Financial Technology
FISPLG	Financial Inclusion Strategy Peer Learning Group
GHG	Greenhouse Gas
GSM	Global System for Mobile communication
IMF	International Monetary Fund
ISEFF	Import Substitution and Export Finance Facility
MDG	Millennium Development Goals
MFI	Microfinance Institutions
MRA	Microcredit Regulatory Authority
NBFI	Non-bank Financial Institution
NBG	National Bank of Georgia
PKSF	Palli Karma-Shayak Foundation
PRI	Principles for Responsible Investment
RBF	Reserve Bank of Fiji
RCFI	Rural Community Finance Institutions
RegTech	Regulatory Technology
SBN	Sustainable Banking Network
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SRF	Socially Responsible Finance
SRI	Socially Responsible Investing
UNDP	United Nations Development Programme
UNFCC	United Nation Framework Convention on Climate Change

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