

PROMOTION



Promotion policies and initiatives prepare the private sector to offer financial services for green projects or related climate action activities to qualified beneficiaries, for example, through awareness raising, information sharing, capacity building and data collection.

MOROCCO

Sensitization and awareness raising on green finance and climate risks in the financial sector

Finalizing regulatory directive on climate change-related risks

EGYPT

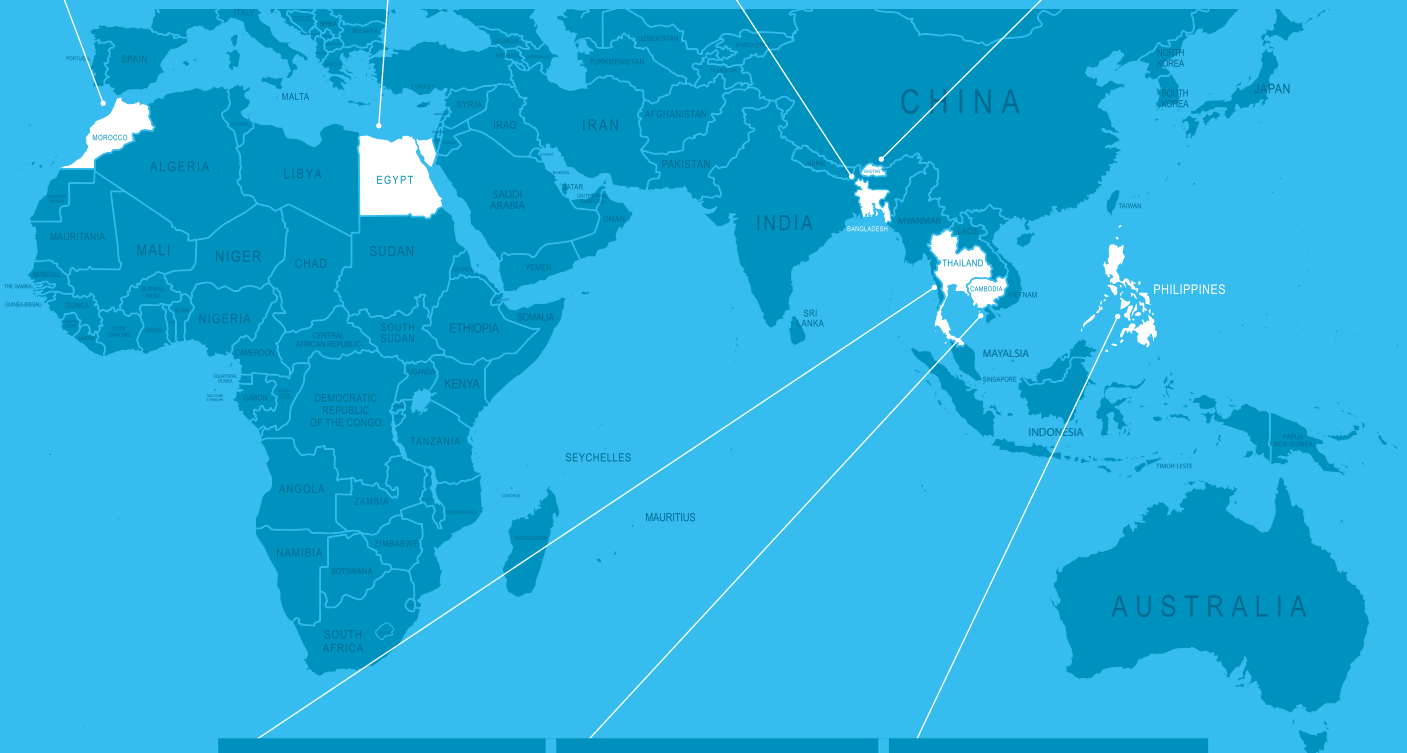
Capacity building on sustainable finance

BANGLADESH

Publishes Quarterly Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities

BHUTAN

National Stakeholder Capacity Building and Coordination Workshop for the upcoming Green Finance Roadmap



THAILAND

Capacity building on ESG risks

Established a regulatory working group on sustainable finance comprised of the Ministry of Finance, the Securities and Exchange Commission, the Office of Insurance Commission and the Stock Exchange of Thailand

CAMBODIA

Encouraged commercial banks to repackage loans for populations affected by disasters

PHILIPPINES

Knowledge sharing and awareness raising on sustainable finance

Conduct of Banking Sector Outlook Survey

Research and data gathering on the impact of disasters to banking operations



Increasingly, promotion policies are becoming the first step for financial regulators working in the area of inclusive green finance. On the inclusive green finance journey, it is crucial to start with capacity building, definitions, awareness raising and dialogue before designing policies and regulation.

Rather than ensuring funds are provided directly, this set of policies and initiatives allow for operating through the market and decentralized identification of a higher number of qualified beneficiaries. An advantage of promotion policies is that innovative approaches to building resilience to climate change, or facilitating access to green technologies, can be implemented without changing the rules governing lending or resource allocation. Moreover, promotion policies focus on building understanding of the need and business case for inclusive green finance, both internally with the regulator and among financial institutions. This paves the way for a successful roll out of inclusive green finance policies and regulation.

MORAL SUASION, AWARENESS RAISING AND CAPACITY BUILDING

Stimulating conversations and dialogue with key stakeholders is vital to steer the financial sector toward climate action. While the member survey on inclusive green finance highlighted a knowledge gap in green finance in the financial sector, financial regulators play an important role in bridging this gap.

➤ In the Philippines, the **Bangko Sentral ng Pilipinas (BSP)** recognizes the business case for green lending, which signals to the private sector that green finance is a public good, and that it can simultaneously benefit an institution's bottom line and society as a whole. In this respect, the BSP is providing an enabling regulatory environment by issuing guidelines that are flexible and commensurate to the size and complexity of banking operations. In partnership with various development partners, the BSP has hosted several forums and trainings targeting senior management and chief risk officers of banks, key government agencies and private companies to increase awareness and knowledge of sustainable finance, including ESRM tools and principles. For its part, the BSP is actively participating in regional and international collaborations of financial regulators and supervisors in this area.

- Parallel to this, the BSP will be issuing a series of regulations related to the promotion of sustainability principles in the banking system. The first issuance sets out broad expectations of the BSP in terms of the integration of sustainability principles, including those covering environmental and social risk areas; governance and risk management frameworks; and the strategic objectives of banks, consistent with their size, risk profile and complexity of operations. The existing BSP regulations on corporate and risk governance standards, as well as credit and operational risk management frameworks, including stress-testing guidelines, have laid the foundation for this issuance. Subsequent issuances will cover more granular expectations about managing climate and environment-related risks in relation to credit, market and operational risks, as well as potential regulatory incentives to be granted to banks that adhere to sustainability principles.
- The BSP also conducts a Banking Sectoral Outlook Survey (BSOS) that gathers the views of the heads (Presidents, Chief Executive Officers, Country Managers) of banks in the country within a two-year time horizon. Among other areas, the BSP intends to have a special section on the BSOS to determine the extent of banks' exposure to, or plans to implement, sustainable or green finance.⁶¹
- In Morocco, **Bank Al-Maghrib** noted that a growing number of banks were issuing loans for climate-friendly technologies to support the country's climate roadmap and meet their own corporate social responsibility (CSR) goals. Bank Al-Maghrib initially encouraged a voluntary approach by the banks and focused on sensitizing the financial sector to the benefits of sustainable development and the risks of climate change. The Sustainable Development Committee, which includes Bank Al-Maghrib and the Moroccan Banking Association, reports on sector initiatives and discusses the risks and challenges to be addressed. Sustainable development is also part of the agenda for meetings held twice a year between the Governor of Bank Al-Maghrib and the presidents of Morocco's banks.

⁶¹ The BSOS serves as a complementary tool for validating the assessments of banking supervisors, and will provide the BSP with additional perspective on the evolution of banks' business models. This will eventually help to enhance prudential regulations and ensure the banking system remains resilient. Moreover, the BSOS provides supervisory and market perspectives on emerging issues (including environmental and climate change) and trends, to allow for timely and relevant prudential reporting and related analysis. Lastly, it is expected to promote financial innovation and developments in the banking sector.

- › **Bank Al-Maghrib** is currently in the process of finalizing a regulatory directive setting out principles to be implemented by credit institutions, including microcredit associations and payment institutions, to understand and manage environmental and climate change-related financial risks. It has also supported training on green finance for national and regional financial stakeholders, including major Moroccan banks and African central banks through the High-level Conference on Inclusive Green Finance co-organized with AFI, and the Third Global Green Finance Leadership program co-organized with the Research Center for the Development of Green Finance at Tsinghua University and the International Finance Corporation (IFC).
- › The **Bank of Thailand** has been working with the World Wide Fund for Nature (WWF) and the Thai Bankers Association to host quarterly sustainable banking workshops to build capacity within the BoT and the banking sector. Last year's theme focused on the importance of ESG risks and how these risks can be incorporated in the banking business. Since 2018, the BoT has hosted the annual Sustainable Banking Forum where board members and senior management of banks in Thailand are invited to hear from thought leaders in the sustainability field. The Bank of Thailand has established a regulatory working group on sustainable finance comprised of the Ministry of

Finance, the Securities and Exchange Commission, the Office of Insurance Commission and the Stock Exchange of Thailand. One of the focal areas of the working group is creating a national ecosystem for sustainable finance.

- › The **Central Bank of Egypt** has sent several staff members on an internationally recognized course in sustainable finance in collaboration with the Frankfurt School of Business and number of Egyptian banks. The course focuses on how to embed ESG in lending activities moreover, several study tours were arranged in different regions to build capacity and capture the international best practices in the sustainable finance field.
- › The **Royal Monetary Authority of Bhutan** organized, in collaboration with AFI, a national stakeholder capacity building and coordination workshop in January 2020. The aim of the workshop was to gather and build the capacity of all relevant stakeholders, including banks, the insurance sector, MFIs, Royal Securities Exchange of Bhutan, National Environment Commission, Ministry of Agriculture and Forests, Gross National Happiness Commission, Ministry of Tourism, Ministry of Finance and UNDP. This meeting was a first step in advancing green finance in Bhutan, and the meeting laid the foundation for the upcoming Inclusive Green Finance Roadmap.

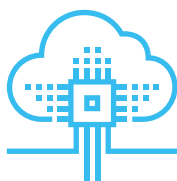


Bhutanese women working on their field, most of the fieldwork is done by hand, Bhutan. March 2014. (Photo by anandoart/iStock)

- › The **National Bank of Cambodia** supports customers affected by natural disasters by encouraging commercial banks and financial institutions to repackage loans for affected populations, especially those living in rural areas and those who rely on agricultural activities.

DATA COLLECTION

Data collection and information dissemination can be powerful tools because they create benchmarks for financial service providers (FSPs) to measure their performance.



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AFI member institutions are increasingly interested in developing mechanisms to collect IGF-related data from both the supply and demand side. This data is necessary to assess the needs of vulnerable populations and the potential economic impacts of climate events. Across the AFI network, the following two examples can be found, and other institutions are currently working on developing definitions and data collection systems for inclusive green finance.

- › **Bangladesh Bank** has made a steady effort to collect and share data on green finance, beginning in 2013 with the publication of the Sustainable Finance Department's Quarterly Review Report on Green Banking Activities of Banks & Financial Institutions and Green Refinance Activities. The Bank also includes a chapter on sustainable banking in its annual report that highlights the progress of green banking activities, which has been emulated by the rest of the country's banks and financial institutions. At the beginning of 2018, Bangladesh Bank significantly revised its reporting format, which now includes reporting of sex-disaggregated data on green finance.
- › The **Bangko Sentral ng Philipinas** is gathering data and conducting research on the impact of extreme natural disasters on banking operations at municipal and branch levels. The BSP has been collecting branch-level information on types of deposits, loans, loan loss provisions and net income since 2008. This data will be matched (or cross-referenced) with data from weather stations across provinces provided by the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA), to determine the quantitative impact of extreme

natural disasters on banking performance. The BSP also intends to improve reporting requirements to facilitate more specific data collection for the monitoring and assessment of climate and environment-related risks.

Financial regulators are promoting climate change efforts through various policies and initiatives and paving the way to mainstreaming climate action in the financial system. While some financial regulators are collecting and sharing information on green finance for specific purposes, data collection on green finance activities in general is still lacking. This policy area is still at an early stage, but data collection is something financial regulators might consider in future policy efforts, including defining data needs and identifying the gaps and challenges related to data collection with inclusive green finance.

CHALLENGES OF PROMOTION POLICIES

Promotion policies indirectly help banks and other financial services providers to determine the best course of action based on the growing environmental risks in their countries and the potential rewards of greener investments. However, the success of this approach depends on the market, and responses to policy options can be slow or even non-existent.

Businesses may not appreciate the value of the incentives (e.g. lack of awareness of green technologies), incentives could be poorly designed or fail to elicit the desired response, or it may simply take time for the market to adjust. Coordinating initiatives might be challenging when implementing promotion policies.