

# Panorama of ESG in the Financial Sector

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# What is Environment, Social and Governance?

ESG, as it is commonly referred to, is defined as a set of environmental, social, and governance factors considered by companies when managing their operations, and investors/banks when making investments, in respect of the risks, impacts, and opportunities which relates to:

## Definition of ESG



- Climate change
- Pollution and contamination of land, air and water
- Eco-efficiency and Resource efficiency
- Waste management
- Natural resource scarcity
- Biodiversity



- Labour rights and labour conditions
- Health and safety
- Treatment of customers and communities
- Human rights
- Supply chain management
- Data privacy



- Regulation
- Anti-bribery and corruption measures
- Business ethics
- Transparency and accountability
- Board composition and independence
- Shareholder rights



# The Link Between ESG and Financial Performance

Companies with strong ESG practices have outperformed in EM

Cumulative index performance (gross returns, USD, indexed to 100), 10/1/07–9/30/17



Source: MSCI, October 2017. The MSCI Emerging Markets (EM) ESG Leaders Index is a capitalization-weighted index that provides exposure to companies with high ESG performance relative to their sector peers. The index consists of large- and mid-cap companies across 24 EM countries; it was launched on 6/6/13. Data prior to the launch date is backtested data (i.e., calculations of how the index might have performed over that time period had it existed). There are frequently material differences between backtested performance and actual results. It is not possible to invest directly in an index. Past performance does not guarantee future results.

Major investors from EMs (Emerging Market) are focusing on ESG factors.

The investors expect the companies and regulatory agencies in EMs continue to make steady progress in improving the quality and breadth of ESG disclosure and practice.

The MSCI Emerging Markets (EM) Index tracks the performance of publicly traded large - and mid-cap emerging-market stocks. The investors believe that ESG issues are indispensable to them as they use this information to assess the risk and want to participate in what maybe the most lasting promise of emerging markets.

- © Emerging Markets are no longer solely dependent on commodity export growth, EM countries now contribute more than half of global GDP and are growing faster than developed markets.
- © Most dynamic growth areas in today's emerging markets also happen to be in sectors in which better ESG practices can contribute directly to superior business results.
- © Companies with strong ESG practices may ultimately deliver better returns on invested capital.

# What are the key ESG risks banks are exposed to through their lending in Angola?

Risk Management Practices

Labor

Resource use and pollution

Communities

Resettlement




Biodiversity





# How do E&S risks accrue to banks?

E&S Risks present themselves to banks as business risks, the main types of risk for banks are:

Type of Risk	Impacts
 <b>Credit Risk</b> Client is not able to repay the loan on account of E&S issues	<ul style="list-style-type: none"><li>• Escalation of project costs (e.g., delays, additional investments)</li><li>• Fines/penalties due to non-compliance with E&amp;S national requirements (OHS, emissions/discharge permits)</li><li>• Loss of production capacity (e.g., closure of business)</li><li>• Poor efficiency leading to low competitiveness/low sales</li><li>• Increased insurance costs</li></ul>
 <b>Liability Risk</b> Banks face legal complications, fees, and/or fines in rectifying social and environmental damage by virtue of taking possession of collateral	<ul style="list-style-type: none"><li>• Obtaining ownership of contaminated collateral</li><li>• Direct liability in the case of strict lender liability</li><li>• Class action suits if made responsible for negative impacts</li></ul>
 <b>Reputational Risk</b> Negative aspects of a project harm a financial institution's image in the media, with the public, business and financial community, and even with their own staff	<ul style="list-style-type: none"><li>• Media coverage</li><li>• Local resistance/consumer campaigns</li><li>• Governmental investigations</li></ul>

# How can E&S risks be managed by a bank throughout the transaction process?



# The IFC Exclusion List, Performance Standards and the Equator Principles



IFC Performance Standards on  
Environmental and Social Sustainability

Effective January 1, 2012



IFC's Sustainability Training & E-Learning Program (STEP): Designed for managers and staff of financial institutions (FIs). Helps build E&S risk management understanding.

# Tips for ESMS Success

Obtain board buy-in and develop dedicated E&S managers with the right background

Adopt an organization-wide approach to capacity building

Initially apply the ESMS to the largest clients in the highest risk sectors. Expand with time.

Work with clients to improve their E&S performance rather than rejecting risky investment

Communicate improvements to stakeholders to enhance reputation



# Sustainable Finance Trends in Emerging Markets & Developing Economies



**SUSTAINABLE  
BANKING *and*  
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# Need & Opportunity: Financing Needed to Make a Substantial Difference in Achieving the Sustainable Development Goals (SDGs)



The UN estimates that up to **\$7 trillion** in investment is needed each year to achieve the Sustainable Development Goals (SDGs) by **2030**.

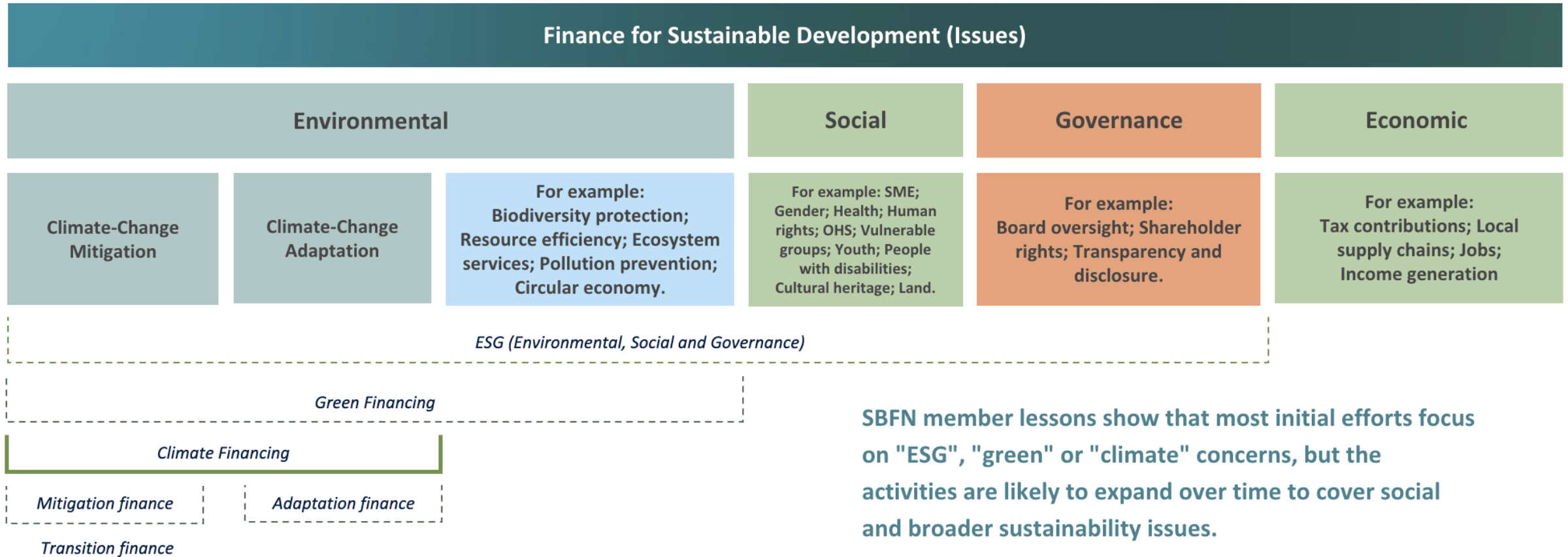
Roughly **\$580 billion** was arranged in 2022 for renewable energy and other environmentally responsible ventures, surpassing Fossil Fuel companies (Bloomberg)



The OECD estimates **\$2.5 trillion** in financing needs in **developing countries** to achieve the SDGs, with an additional projected shortfall of **\$1.7 trillion** as a result of COVID-19.

The global sustainable finance market size was valued at **~\$3 trillion** in 2021, and is projected to reach **~\$22 trillion** by 2031

# Unlocking new financing opportunities



Source: Adapted by SBFN from Definitions and Concepts: Background Note, UNEP



# Sustainable Finance and Banking Network – Emerging Markets Accelerating Together

63 member-countries, 80 institutions, 86% banking assets in EM, 33 countries launched 200+ policies/principles

## Regional members:

- Eastern Caribbean Central Bank (ECCB)\*
- Securities and Exchange Commission of Central Africa (COSUMAF) \*\*
- Federation of Latin American Banks (FELABAN)
- Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO)
- Association of Supervisors of Banks of the Americas (ASBA)
- Banque des États de l'Afrique Centrale (BEAC)\*\*



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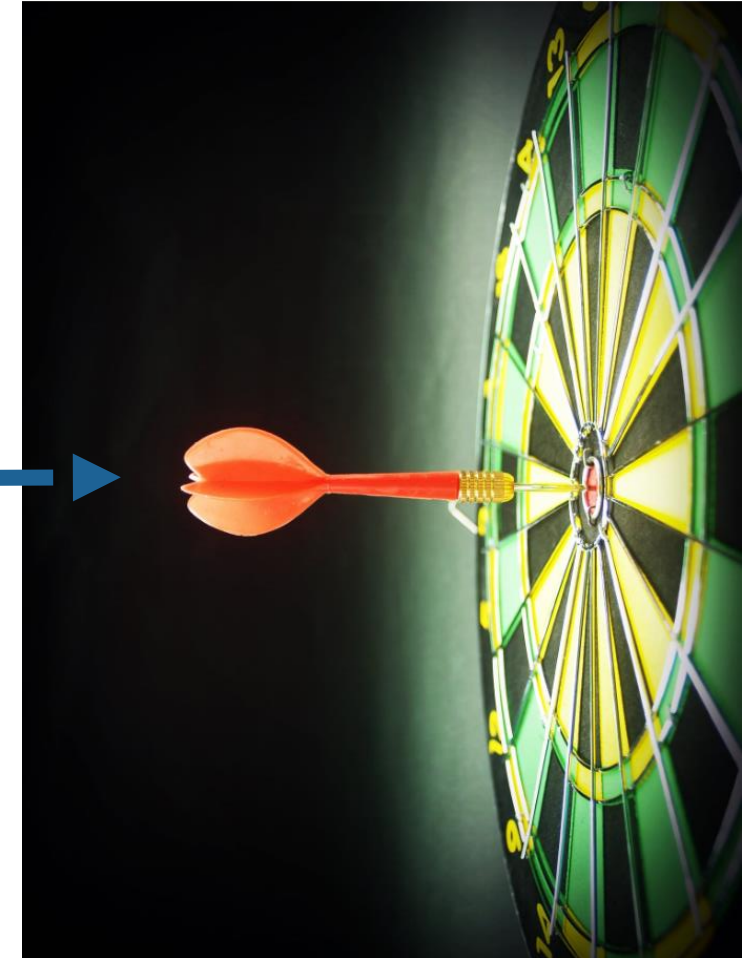
# Collective Ambition to Strengthen Financial Stability and Competitiveness



improved environmental, social, & governance (ESG) **risk management**



increased **capital flows** to activities with positive environmental and social impacts — including mitigating and adapting to climate change.



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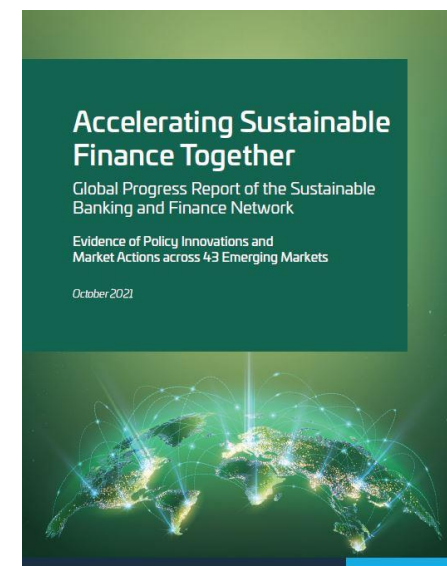
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# Measuring Global Progress to Advance Sustainable Finance

	 <b>Pillar 1: ESG Integration</b>	 <b>Pillar 2: Climate &amp; Nature-related Risk Management</b>	 <b>Pillar 3: Financing Sustainability</b>
<b>Sub-pillar 1: Strategic Alignment</b>	<ul style="list-style-type: none"> <li>• National framework</li> <li>• Alignment with international goals and standards</li> <li>• Alignment with national goals and strategies</li> </ul>		
<b>Sub-pillar 2: Regulatory and Industry Association Actions</b>	<ul style="list-style-type: none"> <li>• Overall approach and strategy</li> <li>• Technical guidance</li> <li>• Supervisory activities and incentives</li> <li>• Tracking and aggregated disclosure</li> </ul>		
<b>Sub-pillar 3: Expectations of Financial Institution (FI) Actions</b>	<ul style="list-style-type: none"> <li>• Strategy and governance</li> <li>• Organizational structure and capacity</li> <li>• Policies and procedures</li> <li>• Tracking, reporting, and disclosure</li> </ul>		



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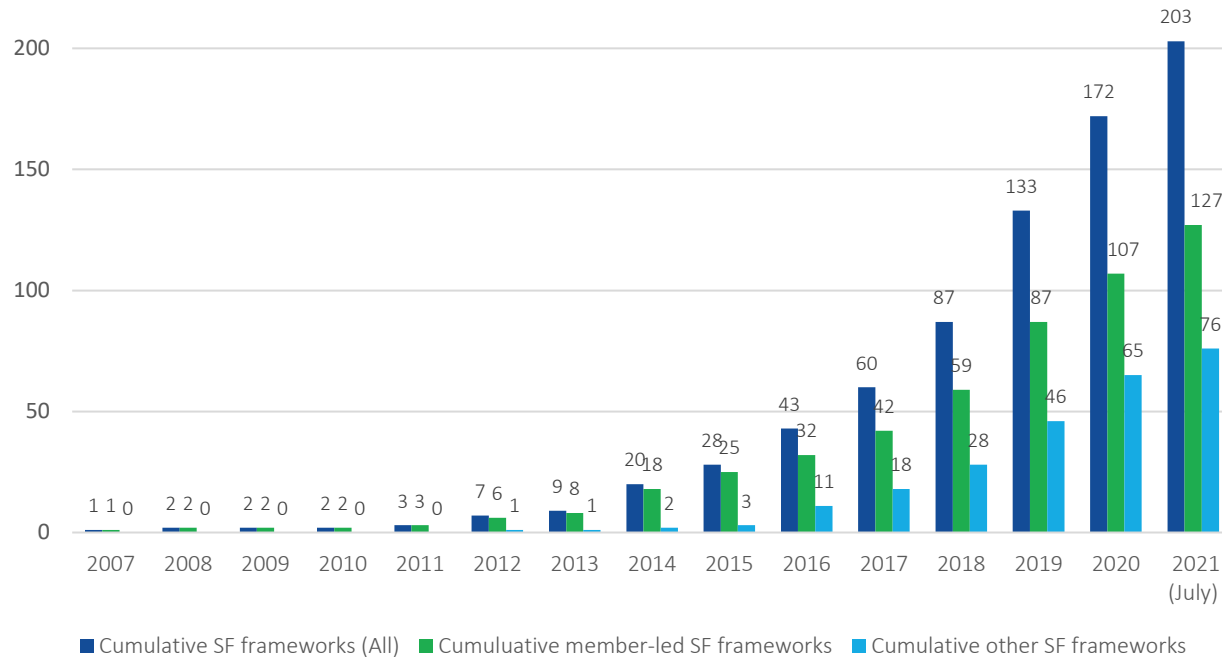


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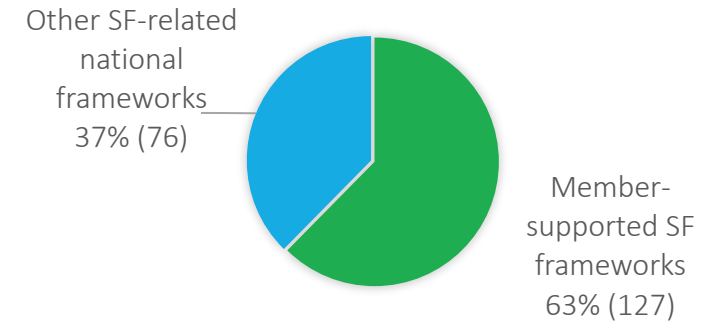
# National Sustainable Finance Frameworks Issuance in SBFN Countries (as of 2021)

Acceleration of Sustainable Framework Issuance in SBFN Countries



\* Sustainable Finance frameworks include roadmaps, policies, regulations, voluntary principles, guidelines, reporting templates, scorecards, tools, and research.

National SF Frameworks Launched to date in SBFN Countries

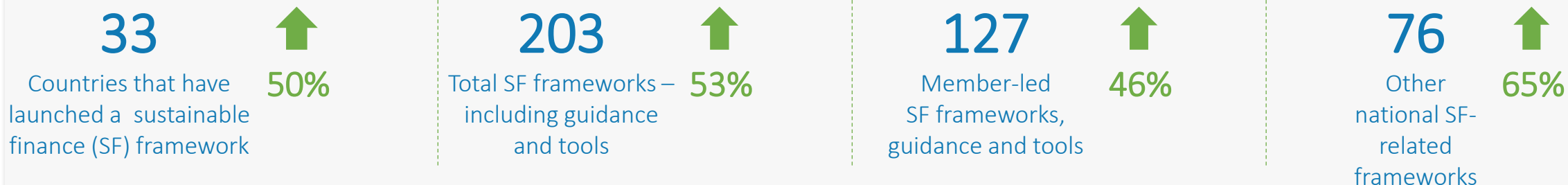


Type of National SF Frameworks Launched in SBFN Countries



# Key Findings: 2021 vs. 2019 SBFN Global Progress Reports

## Key finding 1: Accelerating national SF frameworks, catalyzed by public-private collaboration



## Key Finding 2: Consolidating and deepening policy and market actions across all three thematic pillars

### Pillar 1: ESG Integration

**32** countries (74%) have launched ESG-focused frameworks, of which the majority have reporting requirements and highlight the governance (“G”) of E&S performance.

**15** countries (35%) have established systematic ESG data collection to track implementation.

### Pillar 2: Climate Risk Management

**28** countries (65%) are at **Formulating** sub-stage for climate risk, leveraging ESG frameworks to begin integrating physical and transition climate risks.

**4** countries (10%) are at **Developing** sub-stage, leading the way with robust policy actions for climate risk.

### Pillar 3: Financing Sustainability

**24** countries (56%) have launched guidelines for green, social, and/or sustainability-focused financial instruments, such as loans or bonds.

**6** countries (14%) have published detailed taxonomies and catalogs of eligible green or sustainability-focused projects, sectors, and activities.



# All members are progressing at appropriate stages of the Progression Matrix for their markets\*



\*Countries within each sub-stage are listed in alphabetical order.

## Progress since the 2019 Report

- ☆ 4 new SBFN Countries entered the "Commitment" sub-stage
- Ω 1 new SBFN country leapfrogged to the "Development" sub-stage
- 22 countries progressed within the same sub-stage
- ▶ 11 countries moved one sub-stage
- ▶▶ 5 countries moved two sub-stages





## Benefits of Implementing Sustainable Finance

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- Lower rate of non-performing loans by integrating ESG risk management and benefits
- Unlocking new green and inclusive investment opportunities
- Attracting international financial flows to domestic markets, especially for Environmental and Social priorities
- De-risking markets to enable greater investment flows and deepen financial market development
- Enabling banks to comprehensively monitor the risks associated with their lending portfolios and encourage their clients to address these risks
- Extending financial inclusion and improving social and financial stability
- Boosting financial flows to priority sectors
- Increasing market resilience

# Additional Resources

- SBFN Library of (200+) Policy Documents from members
- SBFN Measurement Framework and Methodology
- SBFN Online Analytical Tool (*beta launched*)
- Global and regional events and webinars (*follow the SBFN LinkedIn for details*)

Learn more about the  
SBFN 3<sup>rd</sup> Global Progress Report &  
41 Country Progress Reports (2021-  
2022)

[www.sbfnetwork.org](http://www.sbfnetwork.org)

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