



GREEN FINANCE AND NON-G20 DEVELOPING COUNTRIES NEEDS, CONCERNS, ASPIRATIONS & APPROACHES

*This briefing summarises perspectives from a roundtable in Geneva on 6-7 April 2016 with practitioners and regulators from Egypt, Honduras, Jordan, Kenya, Mauritius, Mongolia, Morocco, Philippines, Thailand and Vietnam that the UNEP Inquiry co-hosted with the Swiss Ministry of Finance, and builds on the Inquiry's country studies and international engagement.**

KEY FINDINGS

Green finance is a strategy for financial sector development that is relevant for all countries. But the context differs considerably across the world. Developing countries, particularly those with under-developed financial systems, face particular challenges in financing national development priorities. Green finance presents an additional set of challenges, but also emerging opportunities. Developing countries increasingly see green finance as an integral part of their efforts to finance the real economy and the social, economic and environmental imperatives represented by the Sustainable Development Goals.

In seeing green finance as part of their development agenda, non-G20 developing countries are actively establishing approaches that: (a) draw from international best practice, (b) build on domestic conditions and history of financing, and (c) use fintech developments and emerging business models to develop new approaches.

There is no single approach to green finance, but common themes emerged for further exploration and action:

1. **Integrated approach:** the key finding is that environmental considerations for financial sector development must be addressed in conjunction with economic and social issues and priorities.
2. **Building the foundations:** processes involving public and private actors to build awareness and capacity, agree on roadmaps and embed green finance in development strategy are critical to reduce reliance on pioneering individuals or institutions.
3. **Total financing:** while the importance of private finance is recognized, the situation of developing

countries means that it is important to consider the role of related public financial flows.

4. **Inward investment:** international, inward investment needs to be part of any green finance analysis and action, balancing investor responsibility with the need to encourage productive investment flows.
5. **Innovation:** fintech and other innovations can drive more inclusive, green financial market developments, and should be promoted while recognizing the need to ensure the integrity and robustness of financial markets.
6. **Risk and resilience:** developing countries are especially vulnerable to natural hazards and it is important to involve them in emerging approaches to risk assessment, including environmental factors in credit ratings.
7. **National collaboration:** green finance should be developed through effective collaboration involving private and public actors, combining market-driven approaches with policies, regulations and standards.
8. **International knowledge sharing:** enhanced cooperation is needed to share experience between countries by leveraging, extending and connecting existing platforms and initiatives.
9. **Measuring progress:** there is clearly a need to more effectively measure needs, flows and impacts associated with green finance through practical efforts at monitoring and verification.
10. **Development finance:** attention is needed to ensure that development finance adds value to national green finance activities and does not crowd out local initiative.

ILLUSTRATING GREEN FINANCE IN ACTION

- In **Bangladesh**, the central bank has led a sustained initiative to ingrain inclusive and environmentally sustainable financing in the country's financial sector, establishing mandatory environmental risk management and also offering a low-cost refinance window for green lending.
- In **Central America**, the regional business school INCAE has developed an ECOBANKING programme to improve the Latin American financial sector's competitiveness through better environmental management and by designing innovative financial products.
- The **Egyptian** Stock Exchange (EGX) was a founder member of the Sustainable Stock Exchange Initiative and has developed a multi-sector Advisory Committee to advise. EGX was one of the first to launch a sustainability index (S&P/EGX ESG index). In 2016, it will issue guidance for listed companies on the reporting of environmental and social performance and risks.
- The Central Bank of **Jordan** has launched a national strategy on financial inclusion including SME finance, women's access to financing and the protection of consumers of financial services.
- In **Kenya**, the rapid growth of mobile banking has become a platform to enable renewable energy. Several companies offer pay-as-you-go solar home systems that use mobile payments to unlock the use of the solar panel and battery system each day. This in turn enables customers to build up a credit history, which can be used to access additional loans.
- In **Mauritius**, the stock exchange launched the SEM Sustainability Index, which identifies companies based on strong sustainability practices using a set of internationally aligned and locally relevant economic, environmental, social and governance criteria.
- **Mongolia's** Bankers Association developed a voluntary national framework of Sustainable Finance Principles to help local banks integrate environmental and social considerations into lending decisions. All 15 banks have since developed their policies and teams to implement them.
- **Morocco's** Central Bank has committed to sustainable development as part of its formal strategy and is taking first steps in the field of green finance. It has held meetings with banks to explore regulatory and voluntary options towards developing a roadmap for finance reform for a green economy.
- The **Philippines** is developing a public-private disaster insurance pool, and will make disaster insurance compulsory for homeowners and SMEs. This will provide families and small businesses with more rapid and reliable support for reconstruction and will support fiscal and financial stability in a country where natural events can result in losses of several points of GDP.
- Developments in green finance in **Thailand** have focused in particular on the impacts of hydropower developments. Environmental regulations are weakly enforced, but the reputational concerns of banks combined with NGO scrutiny is driving action. The Thai Bankers association has been working to encourage a voluntary risk management approach as part of broader good governance.
- The State Bank of **Vietnam** and the Vietnam Bankers Association have been working to develop environmental and social risk management guidelines for the banking sector. They have drawn on international best practices on environmental and social risk management, including through South-South knowledge with the China Banking Regulatory Commission and Industrial Bank.

* This briefing has been developed by the UNEP Inquiry, in association with the IFC, as an input to the G20 Green Finance Study Group and for a panel discussion hosted by UNEP and the IFC in Washington, D.C. on 12 April. A longer report will be published in May. Perspectives offered in the briefing do not necessarily represent the views of the participants in the dialogue to date. Further information on UNEP's green finance research can be found on www.unepinquiry.org and from simon.zadek@unep.org.

CONSOLIDATING EMERGING EXPERIENCE

“Without necessarily naming it ‘green’, some day in the future all finance will be green. At the same time there are barriers to green finance which are more generally about attracting and allocating capital. So when we talk about green finance we are really talking about strengthening our core financial systems.”

Unenbat Jigjid, Mongolia Bankers Association

“The aim is not to convert the whole economy to ‘green’ all at once, but to accelerate the move from one side to the other. Leadership must come from the private sector, Business community and NGOs, not only from the officials. We need a comprehensive and coherent framework supported by political will that enables market forces to move businesses from the traditional to green economy.”

Mohammed Omran, Egyptian Stock Exchange (EGX)

“Green finance is burgeoning, it has reached a point of spontaneous combustion. But it needs to be aligned. It needs to go beyond the leadership of a few champions and it needs to be coordinated across regional trading blocks.”

Nuru Mugambi, Kenya Bankers Association

Many countries are at an early stage, focused on developing awareness and building capacity. In some cases, public or private leadership has been driven by a strong individual champion, and it needs to become embedded in a sustained process for public-private engagement. Some countries such as Mongolia have developed an ambitious national strategy, which sets out specific goals for building a sustainable financial sector. Others such as Morocco and Vietnam are beginning that process. Bangladesh and Nigeria have developed a framework of metrics for measuring progress.

Cutting across these process elements, participants highlighted three specific situations in which green finance solutions were developed:

1. To prevent financing of illicit practices and profiting from weak enforcement. Green finance is seen as part of good governance and integrity. Weak enforcement of environmental and social regulations can lead to social conflicts (such as around mines and dams) and market impacts (such as the threat to Thailand’s fishing exports due to concerns over labour standards) resulting in losses to lenders and investors, and even macroeconomic stability risks.

- 2. To unlock opportunities for green investment.** In many countries, opportunities for green finance such as renewable energy, energy efficiency, agricultural development and SME productivity are potentially commercial, but inadequately financed either because of barriers in demand for investment (informality of enterprises, lack of asset registration, lack of financial literacy, corruption, policy uncertainty) or barriers in supply (unresponsive financial institutions, short-termism, lack of credit information, lack of understanding of opportunities). Alongside investment, extending insurance is seen as essential for resilience to natural hazards.
- 3. To explore solutions to dilemmas and trade-offs between economic, environmental and social outcomes.** Most notably is the area of carbon emissions, where many developing countries face a tension between the need to expand the electricity supply and the costs and benefits of reducing fossil fuel intensity. Similarly SME finance is an area where heavy-handed approaches can result in reduced overall lending, higher rates of non-performing loans and financial instability.

| Area of focus | Driver | Predominant approach |
|---|--|---|
| Illicit practices and weak enforcement | Risk, reputation, potential liability, access to international capital | Adoption of best-practice environmental and social risk management frameworks |
| Upside opportunities for green finance | Commercial opportunity New markets | Blending public and private finance demonstrate commercial viability and overcome barriers |
| Dilemmas, gaps and trade offs | Social conflict Long-term development concern | Multi-sector dialogue to develop test and sequence policies and avoid unintended negative consequences. |

INTERNATIONAL COLLABORATION

“In many cases donor countries or international investors have a larger say in investment decisions than domestic financial institutions or policies. Sometimes what we want is not their priority.”

Emmanuel Dooc, Insurance Commissioner, Philippines

“It is difficult to talk about green finance in Central America without talking about development finance. The critical question with limited supplies of development finance is not whether it can successfully fund some green projects, but whether it contributes to a shift in lending by local banks to finance these kinds of projects.”

Gracia Barahona, INCAE, Honduras

Learning networks are important and should be supported and optimized. International networks such as the Sustainable Banking Network (SBN), convened by the IFC, the UNEP Finance Initiative, as well as others such as the Alliance for Financial Inclusion have played a key role in accelerating sustainable finance developments. The SBN combines intensive country-level technical assistance and peer networks. New networks such as the Sustainable Insurance Policy Forum are flowing from real needs at the country level. It may be useful to map the broad set of international initiatives and assess what is working and where there are gaps, overlaps and opportunities for more efficient knowledge sharing.

The work of the G20 Green Finance Study Group is relevant to non-G20 developing countries. For many developing countries, banking is dominant and is the focus of green finance efforts; however they are already beginning to consider and implement measures in the capital markets, the development of green bonds, and the role of pension funds, and are concerned with the definition and measurement of green finance and with risk analysis (particularly highlighting the role of insurance).

The concerns of non-G20 developing countries raise additional issues which the GFSG might consider in future work. As the table below summarizes, some of the additional issues are particularly relevant to non-G20 developing countries and some are globally relevant.

| Summary of areas raised in non-G20 green finance roundtable | | |
|---|--|---|
| Already covered by GFSG | Particularly relevant to non G20 developing countries | Globally relevant |
| <ul style="list-style-type: none"> • Measures to green banking • Potential for green bonds • Disclosure related to securities • Risk assessment (in relation to banks, insurance, credit rating agencies) • Definitions/measuring progress | <ul style="list-style-type: none"> • Green finance when environmental enforcement is weak • Financial inclusion • The role of the informal financial sector • Insurance for resilience | <ul style="list-style-type: none"> • Development of national strategies • Disruption enabled by financial technology • Effectiveness of public finance • Role of FDI as an investment channel • The role of the insurance sector • Access to green finance by SMEs • Integrating environmental factors into public procurement of financial services |

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