



Sustainable Finance Disclosures for Financial Sector Authorities

By Anzette Were

July 14, 2022





Outline

- Dynamics informing the rise of sustainable finance
- Sustainable finance disclosure and African finance systems and economies
- Three levers that inform sustainable finance disclosure development
- Ideas on how to manage sustainable finance disclosure constructively

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Definitions



- **Sustainable finance** refers to the process of taking **environmental, social and governance (ESG) considerations** into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.
- **Environmental considerations** can include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy.
- **Social considerations** refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.
- The **governance** of public and private institutions – including management structures, employee relations and executive remuneration in ensuring the inclusion of social and environmental considerations in the decision-making process.



- **Green finance:** Any structured financial activity that has been created to ensure a better environmental outcome.
- Green finance activities aim to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to green development priorities.
- **Green finance includes climate finance** but is not limited to it as it encompasses a wider range of other environmental objectives, such as industrial pollution control, water sanitation or biodiversity protection. and/or environmental benefits.



- **Climate Finance:** Local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.
- **Mitigation financing:** Aimed at reducing emissions and enhancing sinks of greenhouse gases.
- **Adaptation financing:** Aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.

Dynamics informing the rise of sustainable finance

From Africa

- Economic and financial sector exposure to climate change
- Demonstrated viability of sustainably financed projects in key sectors
- Supports the development of sustainable and responsible private sector
- Opportunity to better link development objectives with financial tools, approaches and vehicles
- Can catalyse sustainable economic development and job creation
- Opportunity to build economic models premised on the responsible custodianship of people and plant



Dynamics informing the rise of sustainable finance

From sources of sustainable finance

- Climate-related legislation, regulation and compliance standards
- Consumer demands for ethical companies and products
- Sustainability-focused activist shareholders
- Voluntary pivot to deeper ESG integration post COVID
- Reputation management
- Viability of sustainably financed projects
- Asset class with new revenue and profit opportunities



Sustainable finance disclosure & African finance systems and economies

- Sustainable finance products tend to be formal, structured products with **formal, structured disclosure requirements** that do not meet the reality of economies dominated by SMEs and informality.
- A **lack of understanding** in the market on what sustainable finance is, whether it is more advantageous than 'normal finance' (especially at firm level), and what the ultimate benefits are.
- A **lack of consensus** on sustainable finance disclosures, compliance and reporting standards. What exists is a landscape of differently defined, fragmented, unpredictable and sometimes opaque sustainable finance standards.
- **Sustainable finance standards tend to be supply-side driven** and thus often have a rich economy bias. In sub sectors such as climate finance, there is a prioritisation of mitigation in some leading standards with adaptation standards under-emphasised.
- **Relative inexperience** of financial service providers and financial sector regulators and authorities on the continent in deploying sustainable finance solutions which means MRV/ RD, and related technical staff, infrastructure and expertise is lacking.

Three levers to manage in sustainable finance disclosure development

- **Innovation:** Given how new sustainable finance is in the market, related financial solutions that work in Africa will often be new, untested, with unknown risks and long-term impacts.
- **Technology:** The dynamism of fintech means most sustainable finance solutions will likely be leverage some form of tech, specifically fintech.
- **Evolution of sustainable disclosure standards/frameworks:** Existing standards and frameworks are evolving and changing. The deepened engagement of Africa and other developing economies will inform the evolution and refinement.

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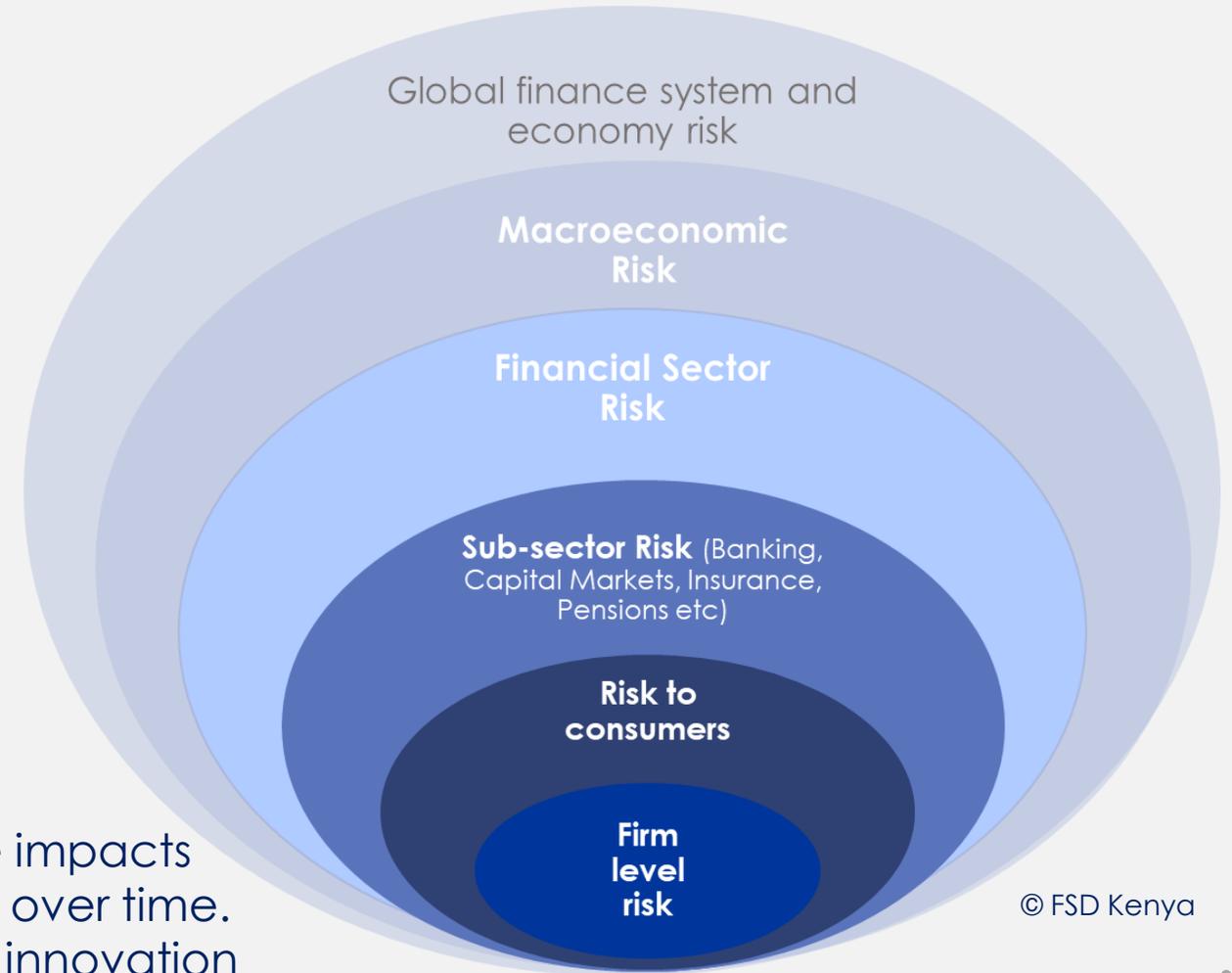
Where should regulatory/ supervisory oversight begin?

Stages of innovation



Sustainable finance solutions will be innovative...

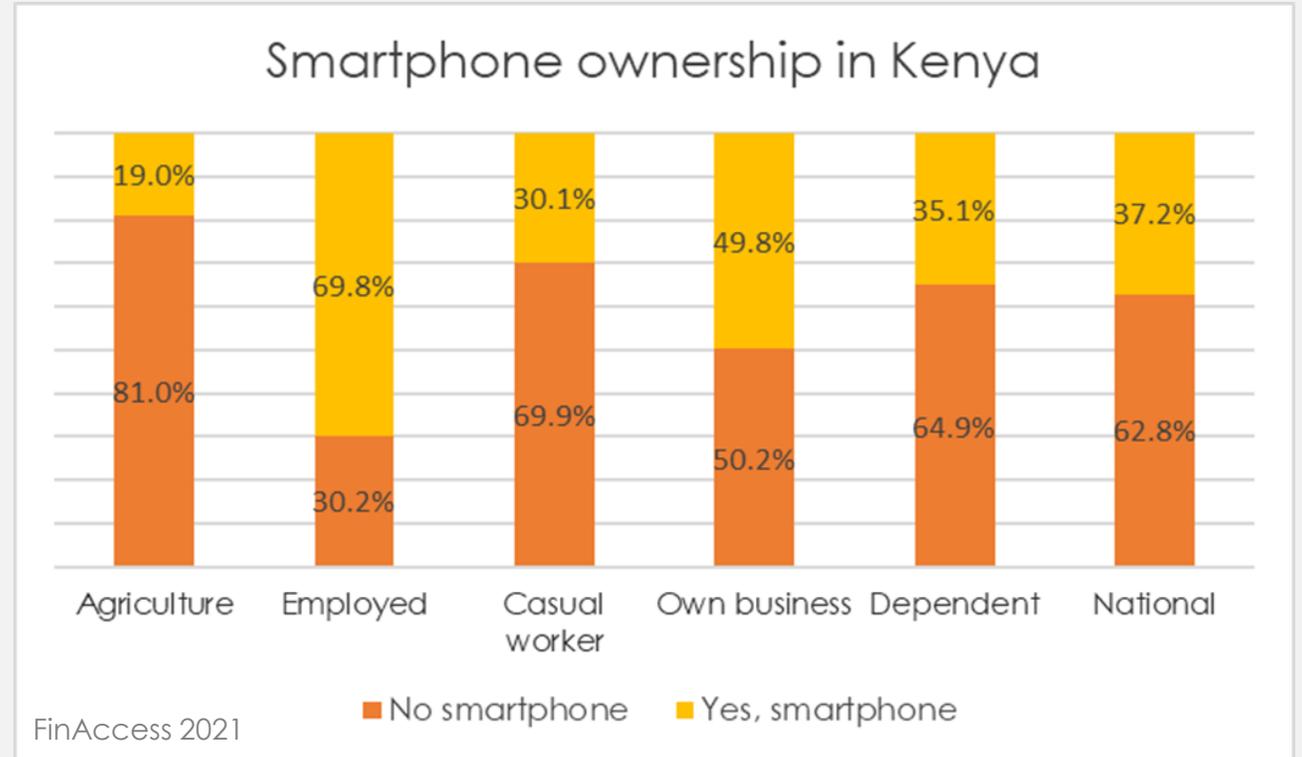
- **Risk:** The dominant features of risk, how it is defined, what is prioritised and managed depend on the entity interacting with the innovation.
- **Unclear policy paths to approval:** Lack of clarity and consistency in the process, timeframe and requirements to secure approval for products/services.
- **Responsibility:** Some innovations straddle the mandates of different regulators. While separate approvals can be secured from each, who is responsible for looking at how the innovation affects the entire sector or how the sub-sectors affect each other?
- **Timeframe management:** Innovations have impacts that are not clear and can evolve/ mature over time. How is innovation managed without stifling innovation but also protecting against sector instability or exposing consumers to harm?



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Sustainable finance solutions will leverage technology...

- **Data privacy and security:** Lack of transparency, impenetrable privacy policies, data breaches, unclear/ conflicting/ suboptimal regulation etc.
- **Cybercrime:** Identity theft, fraud, card fraud, phone fraud, hoax phone calls/sms/malware.
- **Digital service quality:** System down time and outages, inability to transact, inability to access a solution/ account etc.
- **Inadequate financial literacy:** Low awareness, knowledge, skill, and attitude necessary to make sound financial decisions
- **Inadequate digital literacy:** Low ability to navigate the digital world using reading, writing, technical skills etc.



- **Digital inequality:** Unequal starting capabilities, access to devices, financial bandwidth, and digital literacy. These inform who is locked out benefitting from a sustainable financial solution that leverages technology.

Sustainable finance disclosure standards will evolve...

- The current disclosure ecosystem lacks consensus and is dominated by supply-side driven priorities.
- Sustainable finance disclosures development is **not coordinated**. Green and climate-related disclosures are developing at a faster pace to others such as those focused on social impact.
- As African and other economies deepen engagement with this form of finance, there will be an opportunity to **interrogate their relevance** and **make useful amendments**.
- Sustainable finance disclosures evolution and pace of adoption will be informed by **national level** priorities, capabilities and appetite.



- Opportunity to develop sustainable finance **data collection, analysis and infrastructure** to support national and/or regional sustainable finance disclosure standards and practices.

Ideas on managing the dynamism of sustainable finance disclosures

- **Innovation:** Be deliberate in the strategies used to foster and manage innovation in the financial sector as these will affect the evolution of sustainable finance in the market. Regulatory sandboxes have been useful; if used, consider making these sit at financial sector level with sustainability objectives being a key factor considered across the board.
- **Technology:** Assess the extent to which digital inequality may exacerbate unequal access to sustainable finance solutions that leverage technology. Ensure care and inclusion so that most vulnerable do not keep getting inadvertently locked out of economic and income growth opportunities.
- **Sustainable finance disclosures:** Develop familiarity with key existing standards and their level of applicability to national contexts. Support the development of locally domiciled sustainable finance data infrastructure and performance tracking systems. This will enable a deeper knowledge of national dynamics and a more equitable conversation on disclosures that foster consensus informed by different realities.

Useful links

- [Climate Finance: Four ways Africa can secure this new wave of financing](#)
- [How Africa can benefit from the private sector's growing interest in climate finance](#)
- [Green Finance in Kenya Report](#)
- [Climate risk and finance: The banking industry's sensitisation on climate-related risk management](#)
- [Jenga Green Library: Promoting climate smart housing:](#)
- [Using Blended Finance to Navigate the Pandemic: How an Innovative Funding Vehicle is Helping SMEs Survive COVID-19 and Advance the SDGs](#)



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