Suistanable Finance Booklet for Financial Services Practitioners in Tanzania

TANZANIA BANKERS ASSOCIATION

WWF

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1. INTRODUCTION

There is a consensus of sustainability challenges such as social inequality, population growth, high unemployment and pressure on natural resources. In addition, climate change dilemma exacerbates social challenges and puts further pressure on economic growth. As part of responsible corporate citizens, financial institutions can play an important role in enabling sustainable economic development for our clients, customers, and the societies in which we operate.

It is worth mentioning that, there have been efforts at global level focused on addressing climate change and ensuring sustainability. These efforts include the United Nations Environment Programme - Finance Initiative (UNEP FI) that has provided Principles for Responsible Banking (PRBs) as an overarching framework for managing sustainability principal considerations and associated risk. Other notable initiatives include the United Nations Framework Convention on Climate Change, Kyoto Protocol, the Paris Agreements and Sustainable Development Goals. In order to achieve this international pursuit for sustainability partnership between developed and developing countries has been emphasized. In the same vein developing countries have been urging developed countries to fulfill their funding commitments to finance climate adaptation as per the Conference of Parties in 2009 and 2015.

Moreover, there are national level efforts, for example in Tanzania, the President of the United Republic of Tanzania, H.E. Samia Suluhu Hassan during her speech at the COP26 on 2nd November 2021 in Glasgow, called on developed countries to fulfill their climate finance goals of donating 100 billion US dollars by 2025 to facilitate the implementation of the Paris Agreement. She said *"…we know what is required and we know that if the world will not act accordingly, the countries like ours with lower adaptive capacity have no option but to brace for more devastating impacts. Our pride, the Mount Kilimanjaro, is drastically becoming bald due to glacier melting. Our exotic and beautiful archipelago, Zanzibar, is struggling with temperature rises, saltwater intrusion and inundation, thus impacting its tourism ecology. What does all this mean to a poor country like Tanzania? It means 30% of our Gross Domestic Product (GDP) that comes from agriculture, forestry and fisheries is not sustainable...".* The Government has also been partnering with other key stakeholders on various initiatives focused on sustainability.

These international and national efforts towards sustainability will be successful when key players such as banks and other financial institutions will be adequately playing their role. Financial institutions need to commit alignment of their activities to the ambitions of the Paris Climate Agreement and have a systemic approach of conducting a portfolio analysis and identifying impacted areas for goal prioritization in order to minimize its negative impacts and contribute positively to society and the environment through their business decisions, lending and direct operations.

1.1 Sustainable Development

This refers to the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable Development is anchored around three pillars[1] as follows:

- *Economic Sustainability*
- *Social Sustainability*
- *Environmental Sustainability*
-

1.1 Sustainable Development Goals and Paris Climate Agreement

The Sustainable Development Goals (SDGs) are key interconnected areas which were identified by United Nations (UN) to address the global challenges we face by 2030. A total of 17 SDGs as mentioned below were identified aiming at addressing challenges related to poverty, inequality, climate change, environmental degradation, peace and justice.

In addition, the Paris Climate Agreement set out a global framework to avoid the dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C by 2030[2]. It also aims to strengthen countries' ability to deal with the impacts of climate change and support them in their efforts.

1 https://sdgs.un.org/2030agenda

2 https://bit.ly/3ToTqSM

In order to achieve the above Sustainable Development Goals and the aspirations stipulated in the Paris Climate Agreement, sustainable financing is a key component.

1.1 FUNDAMENTALS OF SUSTAINABLE FINANCE

1.1 Sustainable Finance

Sustainable Finance can broadly be defined as a process of integrating environmental, social and governance (ESG) criteria into the decision-making processes for investment, projects, and business activities of firms, aiming at long lasting benefits for the firm, its clients, environment and the society at large.

The objective is to avoid, eliminate, off-set, or reduce to acceptable levels, any adverse environmental and social impacts, and to achieve environmental and social benefits with good governance practices.

Financial institutions ought to have sustainability policies which specify broad principles and control requirements for managing sustainability. This involves developing products and services that have positive impact on the environment, people and economy, while aligning with local and international standards for social and environmental management.

In terms of definition, **ESG** stands for Environmental Social and Governance, and refers to the three main factors considered when assessing the sustainability and ethical impact of an investment in a business or project.

1.1 Components of Sustainable Finance

The components of sustainable finance are categorized into three main categories which are Environmental, Social and Governance (ESG):

Environmental

- Water Management
- Pollution management (water, air, noise and land)
- Soil and Health Management
- Land and Forest Management
- Renewable Energy
- Low Carbon Emission
- Cleaner production and efficiency in use of resource

Social

- Gender Balance and Inclusion
- Employment and Human Resource Policy
- Human Rights
- Welfare of vulnerable groups, e.g., women, youths, and people with disability
- Community Engagements
- Corporate Social Responsibilities

- Compliance to existing National laws & regulations
- Occupational Health and Safety

Governance

- Labour and employment laws
- Equal opportunities and Non discrimination
- Absence of child labour
- Considerations of local content
- Shared value investments/ Corporate Social Responsibility (CSR)
- Organizational structure
- Statutory requirements

1.2 Sustainable Finance: Key Actors

The following are main players/actors in the sustainable finance ecosystem

- Government
- Private sector
- Civil Society Organizations (CSOs)
- Non-Government Organizations (NGOs)
- Financial Institutions
- Multilateral Development Partners
- Regulatory bodies
- Communities

The ultimate aim of ESG considerations should be to meaningfully contribute to turning the country's potential into possibility. Financial institutions can play the following roles in the society:

- Promoting a just society with efforts to deepen governance, accountability and the effectiveness of private and public institutions.
- Support efforts to overcome issues relating to equality, social wellbeing, employment and justice
- Inclusive financing through use of technology and innovative products and services offering for Micro, Small, Medium Enterprises (MSMEs), retail customers and underserved markets. They should also consider enterprise development, knowledge and equipping them to drive financial growth and sustainability;
- Education and skills development to support demand-led skills development initiatives in the technical, vocational and digital skills to

reduce unemployment and develop future skills

- Environmental sustainability by enhancing justice through progressive sustainable finance solutions, driving thought leadership and sustainably manage our own environmental footprint

1.3 SUSTAINABLE FINANCE PRODUCTS

Forward-looking businesses are embracing sustainability requirements and principles, to innovate, compete and create new business models. Innovation, change and sustainability go hand-in-hand and offer strong business opportunities.

The market has grown to include a wide range of sustainability-themed products, such as social bonds, green bonds, blue bonds, infrastructure bonds, green loans, micro credits, social credits, green technology leasing, and other green loans. This supports businesses in the transition to a low-carbon economy and to contribute to a more prosperous future for people and businesses through advisory leadership. In a nutshell the above-mentioned products could be further categorised into two groups which are:

a) Green Financing which focuses on bringing about positive impacts to the environment

b) Social Financing which focuses on bringing about positive impacts to the Society

The following is a highlight of some the commonly known products in this regard:

Sustainability Bonds

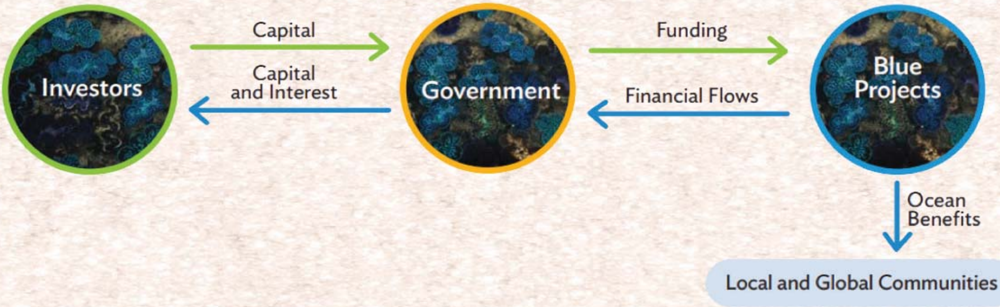
These are bond instruments issued and the proceeds accumulated are used to finance or re-finance a combination of green and social projects or activities. Banks, governments and municipalities can issue these particular bonds. The bond has to adhere to International Capital Market Association (ICMA) principles. Examples of projects are sustainable food, forest and agriculture, waste water management and Green House Carbon emission reduction.

Importance of Sustainability Bonds

- Mitigating physical, transition, and long-term sustainability risk and seizing potential opportunities
- Meeting investor demand
- Aligning with sustainability goals specifically SDG’s

Blue Bond

This debt instrument is issued to support investments in healthy oceans and blue economies. The earnings are generated from the investments in sustainable blue economy projects. Examples of Projects are green marine transportation, coastal marine tourism, sustainable fishing, marine renewable energy, waste water and sanitation, ecosystem management and restoration, aquaculture and ports and shipping.



Source: https://bit.ly/3REi0ie

Green Bonds

These are bonds issued to finance new and existing projects or business activities with positive and environmental impacts. They have to align with Green Bond Principles of the International Capital Market Association (ICMA). Examples of Projects for Green Bonds are renewable energy (solar, wind, hydro and geothermal), energy efficiency, green transport (Bus Rapid Transit - BRT, Standard Gauge Railway-SGR, Electrical or Gas Vehicles), Green Buildings, wastewater management and climate change adaptation.

Social Bonds

These are bonds issued to finance projects which impact the society or activities aiming to achieve or address positive social benefits and outcomes. Examples of projects or business activities responsible for social bonds include food security, gender empowerment, safe water, safety and health, affordable housing, access to social services, and built infrastructure.

Green Loans

A green loan is a financial product that enables borrowers or financial institutions to use the accumulated proceeds to fund projects that make an important contribution to bringing environmental benefits. A financial institution may raise this capital to fund exclusively the green projects.

Example of green loan projects that financial institution can invest are:

i. Loans for building solar power houses

ii. Loans to build zero emission or carbon emission reduction

iii. Loans to private or public institutions with mission to expand water cleaning technologies

1 REGULATORY AND OPERATIONAL FRAMEWORKS

1.1 Regulation and Self-Regulation

Financial sector regulators will be responsible for establishing guidelines/regulations that guide sustainable financing by all financial institutions and other stakeholders in financing matters. The aim of this guidance is to influence strategies and plans that enhance sustainable financing where all stakeholders will abide to the guiding principles. Financial institutions shall ensure financial products are compliant to the sustainability regulations.

On the other hand, the Capital Markets and Securities Authority (CMSA) has a framework in place for facilitating issuance of sustainable bonds in compliance with International Capital Market Association (ICMA) Principles. Moreover, in April 2022, CMSA approved Dar es Salaam Stock Exchange (DSE) Rules, 2022 which has introduced the requirement for sustainability reporting for all companies listed on the exchange and including issuers of financial instruments which takes ESG into consideration.

1.2 Contribution of TBA in Collaboration with other Stakeholders

It is important to note that there have been industry stakeholders' initiatives that include the development of the TBA Code of Conducts and the Sustainable Finance Principles (SFPs) to mention just a few. Tanzania Bankers Association (TBA) is working with World Wildlife Fund (WWF) and other local, regional and international partners to promote the sustainability agenda in Tanzania. TBA has already developed a platform of technical experts who bring together key expertise from financial institutions and other technical partners on the sustainability agenda.

1.3 TBA Code of Conduct

TBA developed and published the Code of Conduct in order to ensure strict adherence to best banking practices and continued commitment to ethical conduct and professional standards by all its members. TBA members and their employees are required to adhere to the TBA's Core Values, the Principles and specific Obligations stated in this Code of Conduct for purposes of ensuring credibility of the banking sector, protecting the rights and interests of the customers, maintaining trust and stability of the financial sector[3].

1.4 Sustainable Finance Principles

The Sustainable Finance Principles for Tanzania were developed by World Wildlife Fund (WWF), International Union Conservation for Nature (IUCN), CEO Round Table (CEOrt) and TBA with technical research and input from the Dutch Association of Investors for Sustainable Development (VBDO).

The principles were inspired by a number of national, regional and global initiatives

3 https://rb.gy/jrumls

striving to guide financial sector contributions to sustainable development such as the Nigerian, Ghanaian, Mongolian, Cambodian, South African and Kenyan banking principles. Other initiatives include the United Nations Environment Programme Finance Initiatives (UNEP FI) principles for responsible banking, Equator Principles, International Finance Corporation (IFC) Performance Standards, World Bank Group Environmental, Health & Safety Guidelines, Africa Finance Development Bank (AfDB) Environmental Safeguards Policy and Inter-American Development Bank (IDB) Environment & Safeguards Compliance Policy.

Below is a summary of the proposed SFPs:

Principle	Description	Roles of Financial Institutions
Principle 1: Environment, Social and Governance (ESG)	*ESG considerations are integral to decision-making in the entity and should be reflected in its policies and practices.*	*Develop and implement environmental, social and governance/sustainability policy, Environmental and Social Management System (ESMS), apply ESG standards and capacity building on ESG.*
Principle 2: Financial Inclusion	*The entity strives for financial inclusion by improving access to financial services for individuals and communities that traditionally have limited or no access to the formal financial sector.*	*Provide financial and consultative support to MSMEs and other special groups in the economy such as women, youths and People with Disabilities by providing affordable and specific tailored products, mentorship, consumer protection and leverage technology to minimize risks. Financial Institutions are also expected to devise other forms of collateral and provide financial education to the public including vulnerable groups.*
Principle 3: Risk Management	*The entity's risk management procedures to discourage investment in environmentally and socially harmful practices.*	*Financial Institutions should screen, transactions and suppliers for ESG risks, capacity building on E&S related risk management, clients and stakeholders' awareness on ESG principles, and monitoring and evaluation of E&S risks and conditions.*

Principle 4: Natural Capital Stewardship	*The entity incentivizes natural capital stewardships to its stakeholders.*	*Focus on financing investment and operations that conserve biodiversity and sustainability of natural resources (such as land and water) and avoiding those that don't do the same, managing risks associated to natural resources avoiding financing operations and if needs be assist with mitigation of potential projects with negative impacts to natural resources.*
Principle 5: Business Innovation	*The entity supports business innovation through preferential investment in businesses and sectors which offer bankable solutions to environmental and social challenges, such as impact investment and microfinance.*	*The Financial institutions should prioritise business that leverage technologies on E&S risks management. They should also leverage technology to reach potential markets and finance impact investments and Finance innovations that create efficiencies and improvements*
Principle 6: Business Compliance, Ethics and Integrity	*The entity conducts its business with a high level of integrity, adhering to responsible business practices and compliant to Applicable laws.*	*Financial Institutions are expected to implement governance structures that ensures ethical conduct of business that will ensure efficiency, productivity and waste minimization. This will be achieved by ensuring that there is compliance to applicable laws, anti-corruption communication and training, and implementation of a Code of Conduct that considers ESG performance*

Principle 7: Transparency and Accountability	*The entity is transparent and accountable for its operations.*	*Financial institutions incorporate Transparency and Accountability in their sustainability policies and ensure effective and regular reporting on performance, governance structures and Environmental and Social Targets set. Financial Institutions should also ensure effective collaborations with all key stakeholders such as policy makers, regulators and industry associations among others.*

Note: *More details on these SFPs are provided on request from Tanzania Bankers Association or visit* www.tanzaniabankers.org.

3.3 Contribution and Influence of Key Sustainable Finance Initiatives

In order to have sustainable financing in the country, there is a need to develop a set of principles in order to ensure responsible business undertaking. This may include development of the following:

- **Sustainable Banking Principles**: these are guidelines for managing environmental and social risk, footprint, and governance, as well as improving human rights, women's economic empowerment, financial inclusion, capacity building, collaborative partnerships, and reporting in the financial services sector.

- **Principles for Sustainable Insurance**: The Principles for Sustainable Insurance[4] provide a global roadmap to develop and expand the innovative risk management and insurance solutions that we need to promote renewable energy, clean water, food security, sustainable cities and disaster-resilient communities. *(Source: UNEP*-Principles for Sustainable Insurance*)*
- **Sustainable Capital Markets -**these are capital markets that enable capital-raising aiming at investing the proceeds in the new and existing projects with environmental and social positive impacts. As part of the initiatives to deepening and broadening the capital markets in Tanzania, CMSA plays a significant role in the development of new capital markets products including sustainable capital markets products (i.e. Environmental and Social Impact Bonds) as alternative ways of financing development projects for economic

4 **Sustainable insurance:** is a strategic approach where all activities in the insurance value chain, including interactions with stakeholders, are done in a responsible and forward-looking way by identifying, assessing, managing and monitoring risks and opportunities associated with environmental, social and governance issues. Sustainable insurance aims to reduce risk, develop innovative solutions, improve business performance, and contribute to environmental, social and economic sustainability

development. The public and private sector can raise adequate financial resources through issuance of these products to the public and subsequent listing on the Stock Exchange.

4 RISK AND GOVERNANCE IN RELATION TO SUSTAINABLE FINANCE

In order to successfully achieve and implement sustainable financing, managing sustainability risks is critical. With respect to definition, sustainability risk means uncertain social or environmental event or condition that, if it occurs, can cause significant negative impact on the organization . For Financial Institutions, this may mean the failure to implement responsible operational and lending practices to effectively manage and report the impact of the financial institutions on the environment and society.

4.1 Environmental, Social and Governance (ESG) Risk Management

- These are a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to environmental, social and governance risks
- The purpose of the sustainability risk standard is to provide systematic guidance for the identification and management of Environmental, Social and Governance (ESG) risks and opportunities across identified processes and risk types in the financial institutions.

It will be used to evaluate all potential investment opportunities against ESG risks and opportunities, and to monitor the on-going ESG performance of financed activities.

Sustainability Risk comprises but not limited to the following sub risks:

- Environmental risk
- Climate change risk
- Premises environmental risk
- Indirect investment risk
- Social risk

Implementation institutions should onboard and undertake sustainable financing as part of processes and governance. This should include onboarding sustainability in their process and risk management frameworks/programs/processes. This is aimed to provide sufficient process and risk management. The governance process should define responsibility of the Board and management.

Responsible institutions may have the following guiding documents/structures/

frameworks/policies/programs:

- Sustainability Risk Type Framework – is the most important document for the institution as it defines the vision and strategy, sustainability goals and objectives, and finally alignment with Sustainable Development Goals and your key performance indicators (KPIs).
- Sustainability Risk Management Standards – this is the institutional approach to identify, assess, manage and monitor the sustainability related risk. This should be mapped to the risk management framework of the financial institution.
- Climate risks assessment: both physical risks (which arise from the changes in weather and climate that impact the economy) and transition risks (arise from the transition to a low-carbon economy). Climate risk may be integrated into the institution's risk management framework.
- Capacity Building programme for staff: this will outline staff training and development plan with an eye of sustainability.
- Governance tools: these are assessments, monitoring and evaluation tools used to sufficiently assess and monitor sustainability of the financial institutions. This should consider environmental, social and governance (ESG) factors.
- Organizational arrangements – mainstreaming sustainability in the organizational structure by creating an independent unit/department/sub-unit in the existing structures e.g., corporate affairs, credit, etc.
- Environment and Social Management Framework (ESMF). This is designed to support Borrowers' environmental and social (E&S) risk management. It applies increased oversight and resources to complex projects and promotes increased responsiveness to changes in project circumstances through adaptive risk management and stakeholder engagement. (Source: World Bank). The EMSF basically covers the aspects of natural resource management and social inclusivity in the development process.

4.2 Financial and Sustainability (Impact) Reporting and Communication

An ESG report or Sustainability report is a report published by an organization about Environmental, Social and Governance (ESG) impacts. It enables the organization to be more committed and set priorities to reach environmental and social impact goals by exposing both positive or negative impacts on the planet, society and the economy.

It also serves as a communication tool that demonstrates transparency on the company's contribution to sustainable development and means of accountability vis-à-vis stakeholders (investors, employees, market regulators, suppliers, civil society, customers, etc.).

There is a number of frameworks for sustainability reporting. The following are the widely used frameworks:

Reporting Framework	**Description**
The UN Sustainable Development Goals reporting Framework	*The reporting framework is based on 17 SDGs as adopted by the United Nations in 2015.*
Global Reporting Initiative (GRI)	*The GRI Sustainability Reporting Standards (GRI Standards) are a reporting framework for organizations to disclose both positive and negative impacts on the environment, society and the economy.*
International Organization for Standardization (ISO)	*ISO is an independent, non-governmental international organization with a membership of 164 national standards bodies. One of its more important standards is ISO 14001, the international standard that specifies requirements for an effective environmental management system.*
Principles for Responsible Investments (PRI)	*Supported by the United Nations, the PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.*
Sustainability Accounting Standards Board (SASB)	*Founded in 2011, SASB focuses specifically on developing standards for sustainability information aimed at investors: data that could affect their financial decisions about a company. It basically connects businesses and investors on the financial impacts of sustainability. Together with GRI, SASB is one of the most important frameworks for sustainability reporting*

United Nations Global Compact	*UN Global Compact is a voluntary initiative for companies that are willing to set in motion changes to business operations so that the UN Global Compact and its Ten Principles become part of strategy, culture and day-to-day operations. Since July 2000, UN Global Compact has received more than 62,000 public reports by over 9,000 companies in 159 countries*
Task Force on Climate-related Financial Disclosures (TCFD)	*The TCFD was created in 2015 by the Basel-based Financial Stability Board (FSB) whose role, since its establishment in 2009 after the global financial crisis, is to promote international financial stability. The TCFD's focus is reporting on the impact an organisation has on the global climate*

5 Tips on how to get started with ESG reporting

- This must be aligned to the strategy. This will cover the scope, roles and responsibilities (management and Board) and governance/ Committee Oversight

- This must be aligned to the strategy. This will cover the scope, roles and responsibilities (management and Board) and governance/ Committee Oversight

- This could involve management/ Board report, financial reports, or regulatory reports
- Ensure reliability and transparency in your reporting

- Communicate to reports recipients/other stakeholders (regulator, Government, customers, etc.)
- Get feedback and monitor

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