TANZANIA BANKERS ASSOCIATION

SUSTAINABLE FINANCE PRINCIPLES FOR TANZANIA

2024

1. Introduction

There is a consensus of sustainability challenges such as social inequality, population growth, high unemployment, and pressure on natural resources. In addition, the 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 customers and society in general.

It is worth mentioning that, there have been efforts at the global level focused on addressing climate change and ensuring sustainability. These efforts include the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, the Paris Agreements, and the Sustainable Development Goals (SDGs). Other notable initiatives include the United Nations Environment Programme - Finance Initiative (UNEP FI) which has provided Principles for Responsible Banking (PRBs) as an overarching framework for managing sustainability principal considerations and associated risk.

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 change adaptation and mitigation as per the Conference of Parties in 2009 and 2015.

Moreover, there are national-level efforts, such as Tanzania being a member of the Conference of Parties (COP) and participating, contributing, and implementing the deliberations emanating from COPs. Other efforts include the National Climate Change and Response Strategy 2021-2026, National Environmental Policy 2021, Environmental Management Act 2004, Zanzibar Climate Change Strategy 2014, National Determined Contributions 2021, and others. The Government continues to partner with stakeholders on initiatives focused on sustainability.

These international and national efforts towards sustainability will be successful when key players such as banks and financial institutions are 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 portfolio analysis and identifying impacted areas for goal prioritization to minimize its negative impacts and contribute positively to society and the environment through their business decisions, lending, and operations.

In recognizing the contribution that the financial sector can make to sustainable development in Tanzania, World-Wide Funds for Nature (WWF), the International Union for Conservation of Nature (IUCN), the CEO roundtable, and the Tanzania Bankers Association (TBA) developed the sustainable finance principles (SFP) for Tanzania. The purposes of these principles are to; promote sustainable finance policies and practices, raise financial sector awareness of the environmental and social risks, increase transparency and consistency, promote confidence in the financial sector, and support collaboration between different stakeholders for sustainable development.

2. Sustainability in the Financial Sector

Tanzania has been one of Africa's fastest-growing economies with a growth of around 6.5% annually, with the financial sector playing a pivotal role. The financial sector is dominated by the banking sub-sector, which contributes about 70% of the total assets. The remaining 30% of the assets belong to the insurance, pension funds, and capital market sub-sectors. Over the years, the banking subsector has enjoyed significant growth yearly. The growth is attributed to a supportive legal and regulatory framework, a conducive macroeconomic environment, and the innovation of digital finance platforms.

While it has experienced considerable growth in recent years, the integration of environmental and social sustainability considerations into banking sector policies and practices is still at an early stage of development. The sections below provide an overview of the progress that has been made towards sustainability as well as identify some gaps and opportunities for enhancing sustainability in the sector.

2.1 National Initiatives Supporting Sustainability

While the inclusion of sustainability measures is still at an early stage in Tanzanian financial institutions, some institutions have made notable progress through the implementation of environmental and social management systems by screening projects before making lending decisions.

Other initiatives of relevance include nationwide financial literacy education being implemented by the Bank of Tanzania (BoT) in collaboration with other stakeholders, implementation of **National Financial Inclusion Frameworks,** development of a nation switch for reducing transaction costs in digital financial services and Climate-Related Financial Risks Management Guidelines issued by BoT.

3. The Tanzania Sustainable Finance Principles

In recognizing the contribution that the financial sector can make to sustainable development in Tanzania, the purpose of these principles is to:

i. Raise financial sector awareness of the environmental and social risks associated with business-as-usual and improve understanding of the opportunities linked to embracing sustainable development strategies.
ii. Promote sustainable finance practices by setting the key environmental, social, and governance requirements for financial institutions.
iii. Increase transparency and consistency in the implementation of policies and practices for sustainable environmental and social management in the sector's business activities and operations.
iv. Reinforce and promote client and stakeholder confidence in the financial sector.
v. Support collaboration between different stakeholders for sustainable development.

3.1 Scope of the Principles

These principles have been developed primarily for adoption by banks and financial institutions as they embark on the sustainability journey. The principles will help banks and financial institutions in shaping the country's economic, social, and environmental development agenda. Adoption of these principles is consistent with the entities' individual and collective business objectives and is expected to deliver positive development impacts to society whilst protecting the communities and environments in which banks/ financial institutions operate.

3.2 Sustainable Finance Principles

Principle 1
Environmental, Social, and Governance

Environmental, social, and governance considerations are integral to decision-making and should be reflected in institutional policies and practices.

Financial institutions are expected to:

1.1 Develop and implement integrated or stand-alone environmental, social, and governance policies tailored to specific objectives. The policy(ies) should capture the organizational structure and specific roles and responsibilities assigned to each function

1.2 The policy(ies) should be communicated to all employees.

1.3 Develop and implement an Environmental and Social Management System (ESMS).

1.4 Implement practical ESG training tools and resources

1.5 Apply ESG standards to all stakeholders.

Principle 2
Financial Inclusion

Strive for financial inclusion by improving access to and usage of financial products and services for individuals and communities that traditionally have limited or no access to the formal financial sector.

Financial institutions are expected to:

2.1 Include a financial inclusion section in the ESG or other relevant policies, in line with the current National Financial Inclusion Framework (NFIF) and the TBA Code of Conduct 2019.

2.2 Provide development and growth support to Micro Small and Medium Enterprises (MSMEs).

2.3 Conduct research and develop affordable products tailored for MSMEs, women, youth, and other vulnerable groups.

2.4 Leverage technology and innovation to enhance financial service delivery to underserved communities.

2.5 Apply differentiated forms of collateral for MSMEs, women, youth, and other vulnerable groups.

2.6 Support improved financial education and literacy for women, youth, and other vulnerable groups.

2.7 Emphasize consumer protection by including this in policy documents and communicating requirements, terms, and conditions of products and services to customers.

Principle 3
Comprehensive Risk Management

Development of a comprehensive risk management framework that prevents environmental and social harmful investment practices.

Financial institutions are expected to:

3.1 Develop an E&S risk management system consistent with applicable laws, regulations, and guidelines.
3.2 Screen transactions for E&S risks by conducting Environmental and Social Due Diligence (ESDD) including a customized exclusion list of sectors, types of businesses, and projects.
3.3 Screen suppliers for E&S risks by conducting ESDD including a customized exclusion list of suppliers.
3.4 Identify and manage risk factors that may affect the environmental sustainability of operations.
3.5 Develop individual institutional and sectoral knowledge, skills and capacity to identify, assess, and manage E&S risks and opportunities associated with business activities and operations.
3.6 Ensure compliance by suppliers and clients by regularly monitoring and reviewing E&S risks appropriately over time.
3.7 Engage with clients and stakeholders before implementation of principles, for awareness creation and buy-in.

Principle 4
Natural Capital Stewardship

Incentivizing natural capital stewardship with local, national, and global stakeholders.

Financial institutions are expected to:

4.1 Proactively support clients to identify and finance investment activities and operations designed to support biodiversity conservation and sustainable management of natural resources.
4.2 Value and account for the risks and opportunities related to natural resources in financial products and services.
4.3 Avoid financing operations that significantly convert or degrade critical natural habitats and inefficiently consume natural resources, including providing mitigants and compensation mechanisms for negative impacts on natural resources.
4.4 Build capacity on natural capital accounting and incorporate natural accounting frameworks and risk analysis.

Principle 5
Business Innovation and Technology.

Support innovation and technological development through preferential investment in businesses, solutions, and sectors that offer bankable solutions to environmental and social challenges, such as impact investment.

Financial institutions are expected to:

5.1 Develop processes to identify and invest in business opportunities, clients, or sectors that promote the use of sustainable new technologies, and low-carbon activities.
5.2 Innovate and leverage existing and emerging technology to reach current and potential markets while economically empowering communities and solving environmental challenges.
5.3 Financing innovations that create efficiencies and improvements of

existing traditional sectors and business activities including developing new green economy activities.

5.4 Invest in the next generation and new growth sectors which in turn creates more educated and skilled workers, more jobs, more opportunities, and more prosperity.

5.5 Leverage technology to finance impact investment that contributes positively to the environment and society.

5.6 Support the development of investment asset classes with environmental and social sustainability at their core, such as green and blue bonds as well as sustainability or SDG bonds.

5.7 Purposefully engage with informal business sectors to facilitate the transition to the formal sector.

Principle 6
Business Compliance, Ethics and Integrity

Conduct business with a high level of integrity, adhering to responsible business practices and compliant with applicable laws.

Financial institutions are expected to:

6.1 Implement robust and transparent governance practices in their respective institutions and assess the governance and ethical practices of their clients and suppliers.

6.2 Foster oversight of ESG business practices at the Management and Board levels contributing towards effective and resilient organizations that are derived from the leadership and enabled by adequate governance structures.

6.3 Organize capacity-building programs on governance measures for all stakeholders.

Principle 7
Transparency and Accountability

Operations are conducted in a transparent and accountable manner.

Financial institutions are expected to:

7.1 Commit to transparency and accountability measures by including this in existing and new sustainability policies.

7.2 Proactively engage with stakeholders on matters of transparency and accountability.

7.3 Set clear E&S targets and key performance indicators, including stakeholder engagements.

7.4 Regularly review and report performance against governance structures, commitments made and principles adhered to against the set targets to ensure accountability.

7.5 Report on ESG performance to stakeholders (this could be in the form of sustainability or integrated reports).

7.6 Require that stakeholders report on their ESG performance.

7.7 Form relevant collaborations with key stakeholders to expand the reach of the Sustainable Finance Principles and for sustainability at large.

WWF

IUCN

CEOrt