IFC Workshop on "Addressing climate change data needs: the global debate and central banks' contribution"

6-7 May 2024

ESG work at the Central Bank of Angola[1]

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[1] This contribution was prepared for the workshop. The views expressed are those of the authors and do not necessarily reflect the views of the Central Bank of the Republic of Türkiye, the BIS, the IFC or the other central banks and institutions represented at the event.

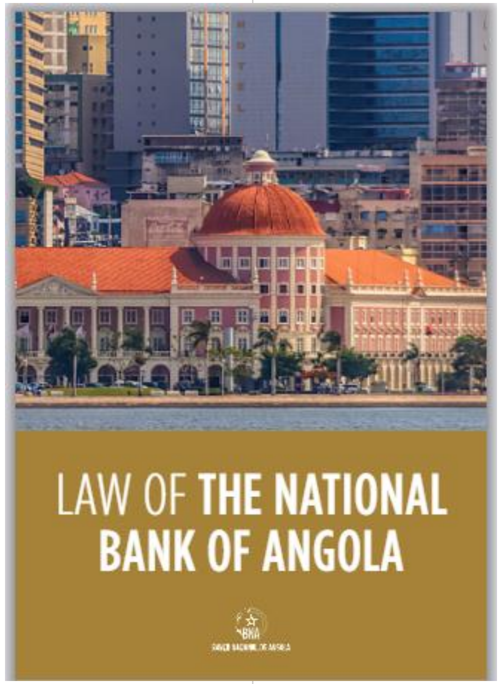
ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) AT BANCO NACIONAL DE ANGOLA – CENTRAL BANK

***BANK OF TURKEY** - Workshop “Addressing climate change data needs: the global debate and central banks’ contribution*

Suzana Monteiro, *Senior Advisor to the Governor*
April, 2024

CONTENT

01 Introduction



Base

- The BNA is the authority for monetary supervision and resolution, both macroprudential and microprudential, and its main mission is price stability and financial stability, becoming a participant in the sustainable development process of the Angolan economy;
- The BNA has started to **consider the topic of ESG as one of its priorities**, just like most central banks and financial supervisors;
- The **environmental pillar** has gained greater prominence because environmental risks, particularly associated with the phenomenon of climate change, constitute an important source of risk for financial institutions;
- Therefore, the sustainability strategy of the BNA is fundamentally based on three priority pillars aimed at promoting a culture of sustainability within its mandate, namely: **regulatory and supervisory policy, monetary policy and financial and corporate or institutional Stability**

02 ESG concepts: purpose and principles

ESG principles in the financial sector

- ESG practices, whose primary objective is to prevent “environmental and climate” damage, have been expanding in the face of the need to reconcile development and sustainability, a concern that is not new and that began to gain strength as early as 1972, with the holding of the United Nations Conference on Human Development and the Environment, better known as the “Stockholm Conference;

- ESG refers to **environmental, social and governance** factors that affect both people and the planet. Environmental risks refer to financial risks arising from environmental degradation and the loss of ecosystem services. Social factors include sub-factors such as equality, inclusion, data protection and privacy, labor standards, investment in human resources, poverty eradication and social well-being of society, customer satisfaction, etc. Governance factors include sub-factors such as organizational structure, senior management remuneration policies, audit committee structure, employee relations, diversity and equality, and so on.

- The main objective of adopting ESG in the functions of Central Banks is to improve the contribution of the allocation of financial resources to the promotion of sustainable and inclusive growth in order to guarantee financial stability in the face of risks arising from related risks, in particular climate and ESG in general.

02 ESG concepts: purpose and principles

ESG vs Sustainable Development Goals

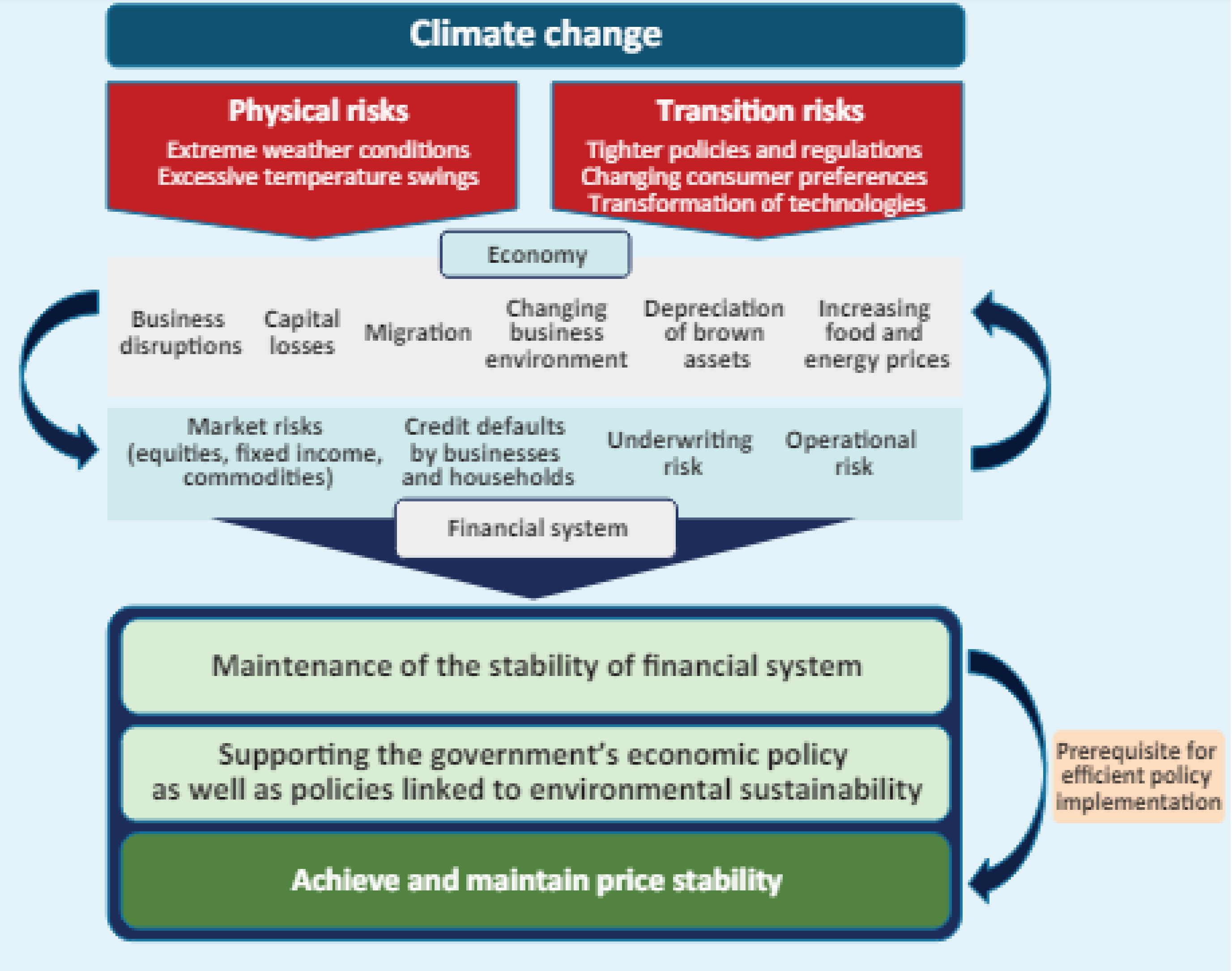
- This type of financial approach, **aims to provide capital to businesses** that are able to demonstrate a commitment and efective practices, towards lowering:

  - carbon emissions
  - ecossystems degradation
  - water stress
  - polution and
  - waste disposal
  - together with promoting social inclusion, transparency and accountability.

- By doing so, **financial institutions and investors are aligning their investment decisions with global sustainability policies, such as:**

02 ESG concepts: purpose and principles

Impacts of climate change on the primary and secondary objectives of the CB.



Source: MAGYAR NEMZETI BANK (MMB) https://www.mnb.hu/letoltes/sustainability-and-central-bank-policy-green-aspects-of-the-magyar-nemzeti-bank-s-monetary-policy-toolkit.pdf.

- On the other hand, climate-related financial risks, whether originating from physical or transition risks, have a significant impact on financial systems and prices;

- For this reason, several central banks have increasingly expanded their functions and tools for managing for international reserves, monetary and financial policy, as well as microprudential and macroprudential tools, in order to better manage and incorporate climate and environmental aspects into their activities.

02 ESG concepts: purpose and principles

Climate-related risks, Opportunities, and Financial Impact..

Source: Task Force on Climate-related Financial Disclosures (TCFD), report June 2017.

- Risks to financial stability from climate change are typically divided into:

Physical risks include the economic costs and financial losses resulting from the increased severity and frequency of extreme climate change-related weather events as well as longer term progressive shifts of the climate.

Transition risks are related to the process of adjustment towards a low-carbon economy. Emissions must eventually reach "net zero" to prevent further climate change, which will likely have a significant impact on all sectors of the economy affecting financial assets values.

03 Benchmark: Central Banks Engaged in "Green" Activities and Their Core Objectives.

N.º	Central Bank of	"Green" central banking activities	Mandates Objectives
1	Austria (ESCB)	2018: Oesterreichische nationalbank becomes NGFS member	Price stability, "need of the national economy with regard to economic growth and employment trends shall be taken into account and the general economic policies in the European Union shall be supported"
2	Australia	2018: reserve bank of Australia becomes NGFS member	a) The stability currency of Australia; b) the maintenance of full employment in Australia; c) and the economic prosperity and welfre of the people of Australia.
3	Bangladesh	2009: Bangladesh Bank introduces green refinancing lines 2012: Bangladesh Bank becomes a SNB member 2016: Bangladesh Bank issues "integrated Risk Management Guidelines for Financial Institutions", green portfolio ceiling, Green Transformation Fund; 2017; Bangladesh Bank issues Guidelines on Environment & Social Risk Management for Banks and Financial Institutions.	Price stability, "towards fostering growth and development of country´s productive resources in the best national interest
4	Belgium	2017: Nationale Bank van Belgie becomes TCFD supporter 2018: Nationale Bank van Belgie becomes NGFS member	Price stability, financial stability

03 Benchmark: Central Banks Engaged in “Green” Activities and Their Core Objectives.

	Central Bank of	“Green” central banking activities	Mandates Objectives
5	Germany	2017: Deutsche Bundesbank becomes a founding member of NGFS	Price Stability
6	India	2015: reserve Bank of India introduces Priority Sector Lending – targets and Classification	“maintain price stability while keeping in mind the objective of growth”
7	Jordan	2016: Central Bank of Jordan becomes SBN member	The objective of the central bank shall be to maintain monetary stability …
8	Luxembourg	2018: Banque Centrale du Luxembourg becomes NGFS member	Price stability
9	Mexico	2017: Banco de Mexico becomes founding member of NGFS.	Price stability, “thereby strengthening the State´s guidance of national development”.
10	Mongolia	2012: Bank of Mongolia becomes SBN member 2014: Bank of Mongolia issues Mongolia sustainable Finance Principles and Sector Guidelines (with Mongolia Bankinf Association).	Price stability, maintaing the stability of financial market and banking system to support balanced development of national economy”
11	Nigeria	2012: Central Bank of Nigeria becomes SBN member	“Monetary and price stability, financial stability, economic and financial advice to government
12	Spain	2018: Banco de Espanha becomes NGFS member	Price stability, “the public authorities shall promote favarable conditions for social and economic progresso and for a more equitable distribuiton of regional and personal incoe within the framework of a policy of economic stability. They shall in particular carry out a policy aimed at full employment.”

03 Benchmark: Climate Change policy landscape banchmark.

- In order to guide its transition to a low-carbon economy, we found that regardless of whether there is an explicit mandate, the majority of Central Banks covered have already adopted green financing policies or guidelines, whether in the management of their own portfolios or in the form of a more integrated approach, driving the banking sector towards sustainability.

	CB mandate includes sustainability or sustainable	CB recognises climate risk as financial risk	CB committed to moving financial sector towards sustainability	CB incorporates sustainable finance in its portfolio	CB embraces CSR
Angola		x	x	x	x
Egypt		x	x	x	x
Kenya		x	x	x	x
Mauritius		x	x	x	x
Marrocco		x	x	x	x
Nigeria			x	x	x
South Africa	x	x	x	x	x
Tanzania	x		Not clear	Not clear	x
BCEAO	x	x	x	x	x

Source: Author´s summary, page 100. https://www.iai.it/sites/default/files/iairs_8.pdf. CB- central bank. CSR - Corporate Social Responsibility.

04 ESG: what are we doing

Angola is subdivided into two seasons throughout the year: summer and warm winter. In 2023, Cacimbo's dry weather lasted until September, instead of ending in August as expected. In November, we experienced rains similar to those in April. These are just two examples of the climate changes experienced in Angola that we have experienced firsthand. What does this mean for our financial system?...it's time to act! For sure that´s a wake up call!

BNA.

04 ESG: what are we doing

Promoting sustainable finance

NGFS Glasgow Declaration
Committed to Action

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

BIS

OBJETIVOS DE DESENVOLVIMENTO SUSTENTÁVEL

PARIS2015 UN CLIMATE CHANGE CONFERENCE COP21·CMP11

1. **Subscrição dos Acordos de Paris**; Inclusion of the SDGs in the National development plan; Inclusion of sustainable financing in the National climate change strategy;

2. In January 2022, **CSSF set ESG in its Strategic Plan 2022 -2023**;

   In **December 2022**, the CSSF carried out a **diagnosis to assess the level of maturity of ESG** (First financial market survey);

3. **Established a cooperation** agreement: Bank of France and French Development Agency (ADF); ESG taxonomy for the Central Bank (in course).

4. First **generic recommendations for the SFA**; Market awareness: **international conference**, together with the different SFA regulators.

5. In March 2024, **the Bank approved its sustainability policy: 3 (three) strategic areas.**; *Task force* multi-sectorial.

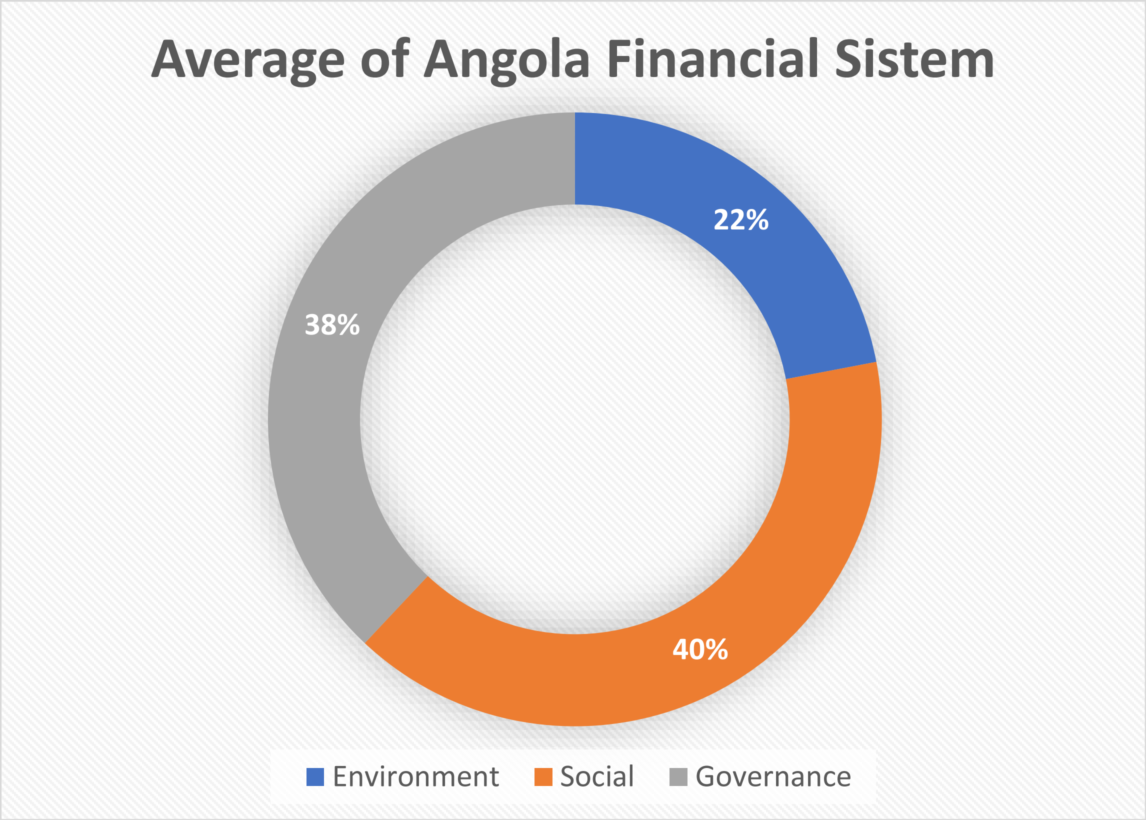
Ensure the resilience/stability of the financial system in the face of ESG risks

BNA

04 ESG: what are we doing

- In December 2022, the CSSF carried out a survey to assess the level of maturity regarding the adherence to environmental, social and governance principles and criteria by financial institutions operating in the Angolan market, in a context in which there was no specific legislation about the matter;

- The **result of the survey** carried out demonstrated that the Angolan financial system is still in an early stage, with the environmental axis demonstrated the lowest level of engagement.



Result of the 1st First Survey of the Angolan Financial System (SFA).

04 ESG: what are we doing

SFA SUSTAINABILITY PRINCIPLES

Principle 01

Promotion of training and knowledge

Principle 02

Identification and incorporation of socio-environmental risks into the governance and risk management model

Principle 03

Leverage partnerships to deepen understanding of practical sustainability issues

Principle 04

Promoting financial inclusion

Principle 05

Transparency and reporting of information

04 ESG: what are we doing

3 (three) strategic Pillars

Corporate

- In January 2023, a comprehensive diagnosis was carried out to identify ESG practices at BNA;
- Improvement at BNA governance: for the first time, has executive and non-executive member of the board;
- Created committees and subcommittees to support the Board of Directors;
- Mapping its carbon footprint,
- preparing a waste and water management system;
- Updating its purchasing policies and regulations to include sustainable parameters in contracts;
- On going social taxonomy;
- On going decarbonization Program to achieve carbon neutrality.
- social responsibility policy,

Monetary Policy and Financial Stability

- Integrate climate-related considerations into its monetary policy analyses;
- Study on the impact of socio-environmental risks on the Angolan economy;
- Study on the definition of sustainability criteria for reserve management;
- Improve the monetary policy transmission mechanism.

Regulation and Supervision

- **Reforms in terms of regulation and supervisory processes**: law, regulation and supervision process;
- Five-year period 2023 – 2028, the BNA defined as one of its strategic plan: ensure the modernization and sustainability of the financial system;
- First survey on banking revealed a low level of maturity: Environment: 26%; Social: 50%; Governance: 53%;
- Incorporate ESG criteria and standards into their risks management model: ICAAP and Market discipline;
- Revisar a regulamentação para incorporação dos padrões ESG;
- Update Stress tests to incorporate climate risks, on going.
- Update its corporate governance regulation.

05 Final Consideration, Challenge and Perpective

- The incorporation of ESG pillars into the Angolan financial system, mainly in the banking sector, is at its early stage, therefore commercial banks should seek to increase their maturity in “environmental” and social terms by improving their internal sustainability practices and while at the same time developing products that help industries in emissions reduction/decarbonization;

- The published principles played a crucial role in pressuring financial institutions in general, and banks in particular, to adopt ESG principles in defining their strategies;

- Therefore, it is clear that there must be a joint effort between regulators and supervisors of the financial system as well as the market to increase the level of awareness and, consequently, maturity from the point of view of environmental protection;

- the BNA is at the forefront of initiatives that have included the financial system in general, and in particular with the calculation of its carbon footprint, with its social responsibility policy and with its ongoing decarbonization plan;

05 Final Consideration, Challenge and Perpectives

Challenges

- Insufficiency and training of human resources;
- Lack of expertise;
- High costs for IFB in implementing new requirements and ESG criteria;
- Outsourcing;

Perpectives

- Develop a sustainability framework for the SFA;
- Integration of ESG practices in the implementation of the institutions' strategic;
- Create database and define statistical indicators;
- Climate stress testing exercises;
- Carry out a second round of the survey on ESG;
- Define rules for reporting and disseminating information regarding ESG to the market.

BNA

Thank you!

04 ESG: what are we doing

NGFS Glasgow Declaration
Committed to Action

Mar. 2022

Definition of Sustainability as the fourth pillar of the CSSF Strategy

Dez. 2022

Diagnosis on the maturity level of Financial System

Jan. 2023

The working group for the creation of the BNA Sustainability Policy has been approved and work has begun

Dez. 2023

- BNA's accession to NGFS;
- Disclosure of diagnostic results;
- Promotion the creation of a multi-sectoral working group;
- Publication of sustainable banking principles.

2024

- 2nd round of the survey for diagnosis;
- Promotion of the creation of green/social taxonomy;
- Discussion around stress tests

LOADING...