



Policy Recommendations for Regulatory Considerations on

SUSTAINABLE FINANCE

BAB

جمعية مصارف البحرين
Bahrain Association
of Banks

Prepared by:
Sustainable Development Committee

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THE GLOBAL GOALS



SUSTAINABLE FINANCE POLICY PAPER TEAM

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CONTENTS

ACKNOWLEDGEMENTS	5
.....	
FOREWORD BY THE COMMITTEE SUPERVISOR	6
.....	
INTRODUCTION	8
.....	
A SUMMARY TABLE OF RECOMMENDATIONS	12
.....	
RECOMMENDATION 1: DEVELOPING SUSTAINABLE FINANCE SECTOR	14
.....	
RECOMMENDATION 2: DEVELOPING SUPPORT MECHANISIM FOR GREEN FINANCE IN BAHRAIN	20
.....	
RECOMMENDATION 3: INTERNALIZING SUSTAINABILITY	25
.....	
RECOMMENDATION 4: BAHRAIN GREEN FUND	30
.....	
ANNEXURES	32
.....	

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We are also grateful to Dr. Waheed Al Qassim, Chief Executive Officer of the Bahrain Association of Banks and his hardworking team for continued support and facilitation. The Committee would like to extend special gratitude to Dr. Ali Adnan Ibrahim (Al Baraka Banking Group), Ms. Zeeba Askar (Ithmaar Bank), Ms. Fatema Yusuf (Bank ABC), Mr. Hussain Al Banna (Bahrain Islamic Bank), Mr. Arif Janahi (Al Salam Bank), and Mr. Yousif Musayeb (Kuwait Finance House) for their leadership and extra work for preparing this Policy Paper.

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We are also thankful to several individuals whom we have spoken to for brainstorming and are grateful for their help and feedback for this Policy Paper. In particular, we are thankful to Dr. Mohamed Mubarak bin Daina, Chief Executive of the Supreme Council for Environment, Mr. Amin El Sharkawi, Resident Coordinator of the United Nations Development Program, Dr. Rula Qalyoubi, Regional Coordinator of the United Nations Environment Program, and Dr. Jarmo Kotilaine, Chief Economist of Bahrain Economic Development Board. We are also grateful to Mr. Hamad Al Mahmeed, Mr. Shaheen Shaheen, Ms. Amna AlArayedh, Ms. Nora AlAmer, and Tariq Al Olaimy for their invaluable support in research and comparative analysis of global green finance trends.

FOREWORD

BY THE COMMITTEE SUPERVISOR

ADNAN AHMED YOUSIF
CHAIRMAN,
BAHRAIN ASSOCIATION OF BANKS
PRESIDENT AND CHIEF EXECUTIVE,
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Sustainable development refers to an opportunity for holistic social and economic growth. The Global Goals for Sustainable Development have articulated this opportunity in 17 Global Goals, allowing different stakeholders in different parts of the world to prioritize them according to their respective social and economic conditions.

We, at the Bahrain Association of Banks, have prioritized sustainable development. We have started this journey by establishing a permanent committee to examine what

sustainable development means for the banking sector in Bahrain, and what newer opportunities it brings.

Sustainable infrastructure is now a separate asset class, attracting new investors to projects that are green and sustainable. Putting it in perspective, over \$90 trillion are needed to be spent on sustainable infrastructure in the next 15 years—and over 60% of these investments will be made in the energy and transport sectors.¹ Developing countries alone need annual spending of over \$4 trillion every year. Currently, in developing and transition economies, 60-65% infrastructure projects are financed by public resources, which leaves 35-40% financing for the private sector.

Climate-related projects are attracting major part of Sustainable Finance. As a result, green finance is growing rapidly. Over 400 investors (with over \$25 trillion in assets) have joined the Investor Platform

for Climate Actions, committing to invest in low-carbon and climate resilient investments. On November 7, 2017, total green bond issuance for 2017 was around \$95.7 billion, which issuance was \$81.6 billion during 2016.²

Bahrain is a resilient economy, and has been so for many decades. Bahrain has been the forerunner within the GCC on the successful journey of economic diversification. The recent rise of sustainable banking and finance globally has provided the right momentum for Bahrain to steer towards a more sustainable, greener economic future.

The banking and financial services sector of Bahrain has every reason to keep up with the growing dynamics of financing sustainable energy, transport and other infrastructure projects. This also offers an unprecedented opportunity for Bahrain's banking sector to lead a profitable journey of sustainable banking.

¹ The Sustainable Infrastructure Imperative: Financing Better Growth and Development (The 2016 New Economy Report)

² <https://www.climatebonds.net/files/files/Q3-2017-Market-Summary.pdf>

INTRODUCTION

OVERVIEW

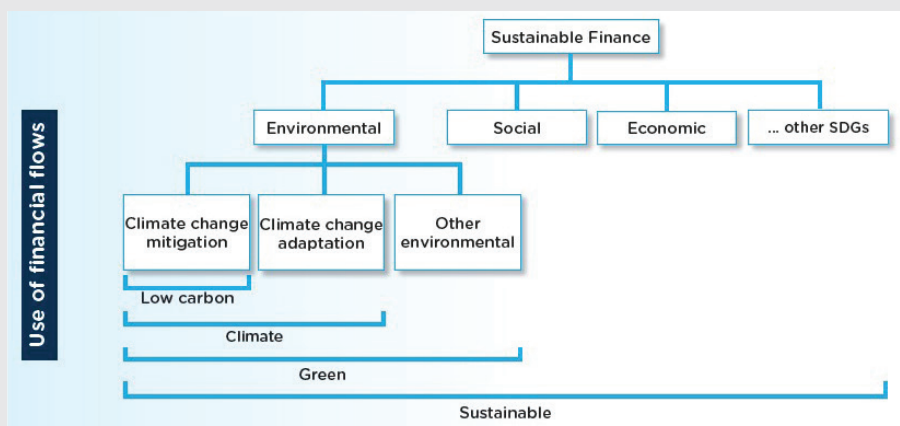
Sustainable Finance integrates social, environmental and governance (“ESG”) factors in to the financial decision making process of participants within the financial services industry (“Sustainable Finance”). More broadly, Sustainable Finance also refers to financing of sustainable development projects pursuant to the 2030 Agenda for Sustainable Development passed by the United Nations on Sep 25, 2015. Sustainable Finance can no longer be considered optional; it is fast becoming an investment imperative as the risks and rewards associated with the transition to a sustainable economy are quickly being integrated into the global financial markets.

Climate change and environmental degradation

are negatively impacting economies and various industrial and business sectors. The existing economic and financial system must capitalize on the new opportunities presented to mitigate the negative externalities created by climate change. Financing environmentally sustainable infrastructure projects, businesses and ideas is clearly a great market opportunity and a source of future facing jobs and economic growth.

Bahrain, being a leading banking and finance hub, is well-known for its openness to innovative ideas and embracing change before the trends become inevitable. Sustainable and green finance is currently a niche market but it is growing quickly and will be highly relevant to Bahrain’s economic future.

ELEMENTS OF SUSTAINABLE FINANCE



Source: Adapted from UN Environment Inquiry 2016b

COMMITTEE'S STRATEGY

After we commenced our deliberations, the Committee decided to focus on two areas for policy-level engagement. In this regard, the Committee further decided to prepare action-oriented recommendations with regard to:

1. Establishing sustainable (and green) finance framework; and
2. Financing sustainable infrastructure.

The current Policy Paper seeks regulatory consideration on sustainable (and green) finance framework for Bahrain.

In the interest of broadening the dialogue among the stakeholders, we have attempted to restrict this Policy Paper to action items for consideration by the Central Bank of Bahrain ("CBB") and other relevant authorities. We have separated the short-term deliverables from the rest to keep the focus on the practical steps.

STRUCTURE

The objective of this Policy Paper is to highlight the areas in which the banking and financial sector of Bahrain should engage with the CBB and the Government of Bahrain to help develop a framework of policies and measures to promote sustainable and green finance in Bahrain.

We hope that this Policy Paper, and what ensues from it, will encourage Bahrain's banking and financial sector to support environmentally sustainable projects and businesses by offering innovative financing products and services. We also hope that such support from the banking and financial sector will contribute to the continued growth of Bahrain's economy, making Bahrain more attractive as a leading financial centre.

THIS POLICY PAPER

is not intended to serve as an exhaustive background material on sustainability. Instead, it is to facilitate a broader discussion among the key stakeholders. The Committee benefitted from several materials and some of which are referenced in the annexures.

THE VIRTUOUS CYCLE OF MARKET-DRIVEN SUSTAINABLE FINANCE



Source: UN Environment/WBG Roadmap Team

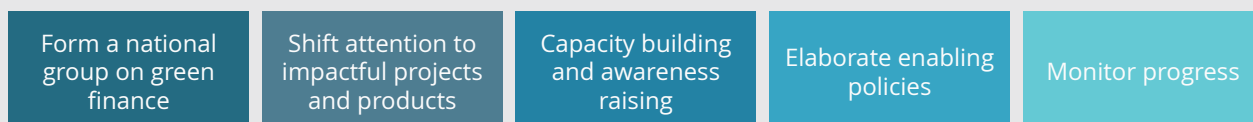
GLOBAL AND REGIONAL TRENDS

(excerpted from the benchmarking analysis referred to in Annex 3)



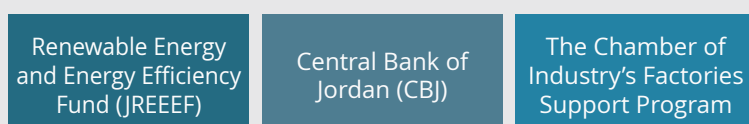
UAE'S GREEN FINANCE SYSTEM

In January 2015, the Cabinet of the United Arab Emirates issued a decision to implement the UAE Green Agenda 2015-2030. The Agenda aims to put forward the country's ambition to become a global hub and a successful model for the low-carbon green economy. Below are its key steps for developing and implementing its strategic plan for Green Finance:



JORDAN'S GREEN FINANCE SYSTEM

Jordan has implemented the largest number of renewable-power support policies in the Middle East, especially in renewable power, according to the OECD's review of Jordan's clean energy investment policy (Link). Some of its major renewable energy support policies include the following:



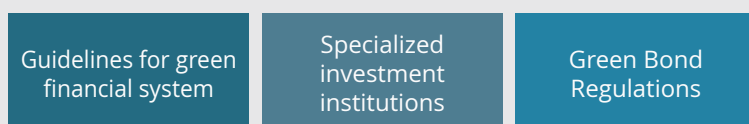
UK'S GREEN FINANCE SYSTEM

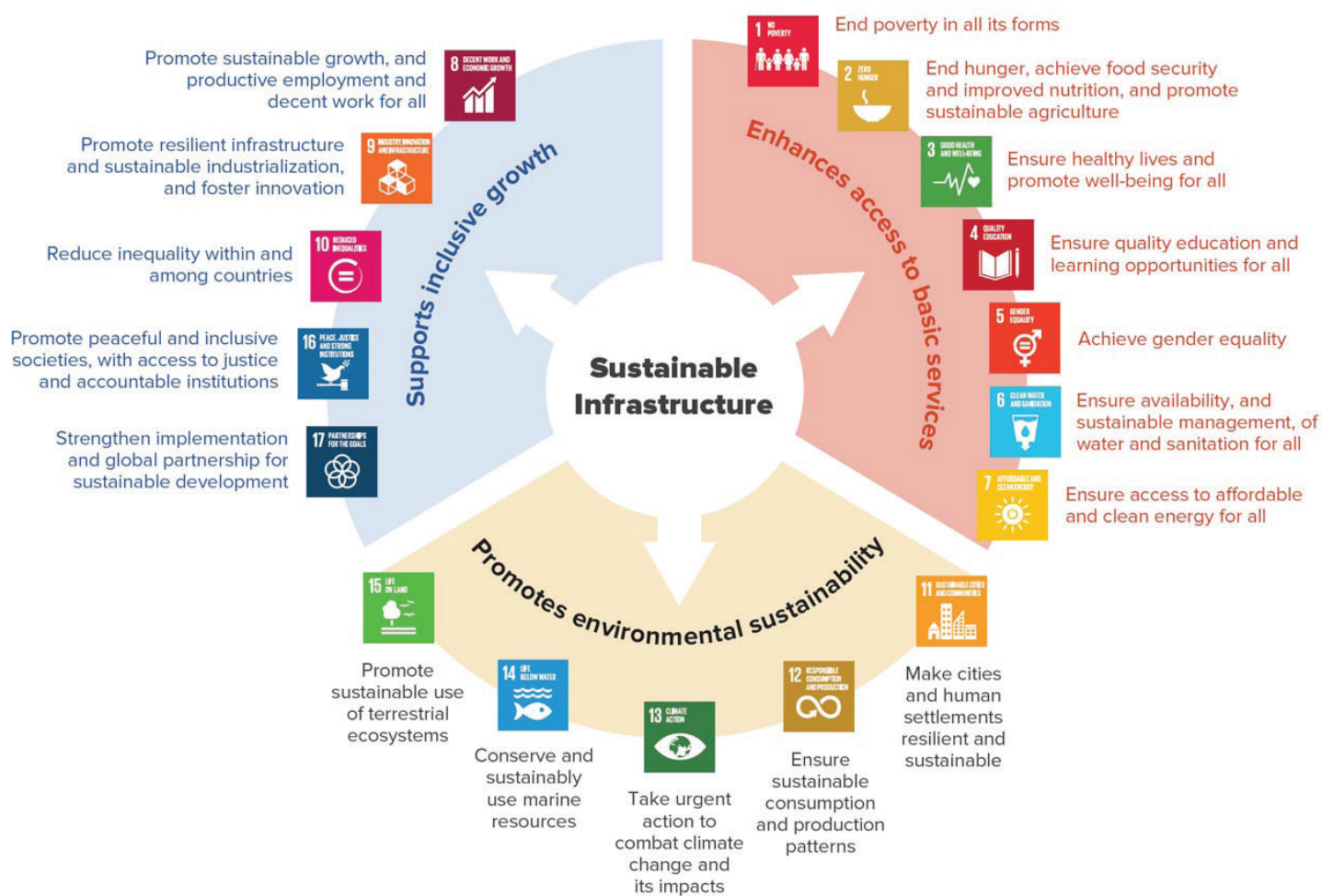
To promote investment in sustainable building and technologies, various forms of green finance are already in place or are under development in the UK. These vary from direct subsidy, through to the creation of institutions and market mechanisms that accelerate flows of private and public money into green projects. Below are examples of green finance options in the UK:



CHINA'S GREEN FINANCE SYSTEM

With China's environmental carrying capacity reaching its upper limit; its central bank, the People's Bank of China, convened a Green Finance Task Force brought together by UNEP Inquiry in 2014 which created the guidance on issuance of green financial bonds and the Green Bond Endorsed Project Catalogue in 2015 (Link). Other specialized investment institutions such as green banks have also contributed to the promotion of green financial instruments. Below are examples of how China has created and promoted its green finance system.






SUSTAINABLE INFRASTRUCTURE SUPPORTS MANY OF THE SUSTAINABLE DEVELOPMENT GOALS


Source: http://newclimateeconomy.report/2016/wp-content/uploads/sites/4/2016/08/Figure-1_NCE2016.jpg

A SUMMARY TABLE OF RECOMMENDATIONS

Recommendation 1: Developing Sustainable Finance Sector

Policy Action 1.1: Integrating Sustainable Finance with the Sustainable development Strategy for Bahrain 

Policy Action 1.2: Defining Sustainable Finance 


Policy Action 1.3: Developing Bankable Project Pipeline 

Policy Action 1.4: Incentivizing Sustainable Development Projects and Businesses

Policy Action 1.5: Pursuing Local and International Collaboration

Policy Action 1.6: Promoting Sustainable Capital Market


Policy Action 1.7: Reporting Sustainability

Policy Action 1.8: Forming Sustainability Think-Tank and National Sustainability Committee 

Policy Action 1.9: Promoting Thought Leadership And Public Awareness 

Recommendation 2: Developing Support Mechanism for Green Finance in Bahrain

Policy Action 2.1: Developing Green Finance Policy Framework

Policy Action 2.2: Defining Green Finance and Specifying Eligibility Criteria 

Policy Action 2.3: Green Tagging 

Policy Action 2.4: Issuing Regulatory & Other Incentives for Green Finance:
2.4.1: Favourable Regulatory Treatment
2.4.2: Sovereign Green Bonds Repo Treatment
2.4.3: Preferential Tax Treatment for Green Instruments

Policy Action 2.5: Mandatory Training & awareness programmes for institutions 

Recommendation 3:
Internalizing
Sustainability

Policy Action 3.1: Pledging Percentage of Portfolio for Sustainable and Green Investments

Policy Action 3.2: Green Investment Vehicle via Sustainable Finance Consortium

Policy Action 3.3: Incorporation of Environmental Risk in Credit Risk Management (CRM)

Policy Action 3.4: Initiating In-house Environment Management

Policy Action 3.5: Professional Training and sustainability awareness

Short
Term

Policy Action 3.6: Conduct sustainable Strategic Planning

Policy Action 3.7: Design and Introduce Innovative Green Products

Policy Action 3.8: Disclosure and Reporting of Green Banking Activities

Recommendation 4:
Bahrain Green
Fund

Policy Action 4.1: Establishing Bahrain Green Fund for Credit Support

Policy Action 4.2: Developing Fund Stakeholder and Global Coordination

Policy Action 4.3: Inclusive Mandate

Policy Action 4.4: Bahrain Green Fund Strategic Plan

RECOMMENDATION 1

DEVELOPING SUSTAINABLE FINANCE SECTOR

The Central Bank of Bahrain (CBB) should consider developing a clear and comprehensive policy for developing a Sustainable Finance sector within the banking and financial services sector of Bahrain. Existing financial inclusion and related initiatives can be integrated under Sustainable Finance. Green Finance, being a main pillar, should remain part of such Sustainable Finance policy.

ACTION POINTS

- | | | |
|------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|------------------------------------------------------------|
| 1 INTEGRATING SUSTAINABLE FINANCE WITH THE SUSTAINABLE DEVELOPMENT STRATEGY FOR BAHRAIN | 2 DEFINING SUSTAINABLE FINANCE | 3 DEVELOPING BANKABLE PROJECT PIPELINE |
| 4 INCENTIVIZING SUSTAINABLE DEVELOPMENT PROJECTS AND BUSINESSES | 5 PURSUING LOCAL AND INTERNATIONAL COLLABORATION | 6 PROMOTING SUSTAINABLE CAPITAL MARKET |
| 7 REPORTING SUSTAINABILITY | 8 FORMING SUSTAINABILITY THINK-TANK AND NATIONAL SUSTAINABILITY COMMITTEE | 9 PROMOTING THOUGHT LEADERSHIP AND PUBLIC AWARENESS |



POLICY ACTION 1.1: INTEGRATING SUSTAINABLE FINANCE WITH THE SUSTAINABLE DEVELOPMENT STRATEGY FOR BAHRAIN

Pursuant to the global 2030 Agenda for Sustainable Development¹, many countries are developing their respective sustainable development strategy and targets. Countries are also taking steps to include sustainable development in their planning and budgeting process. On similar lines, the CBB should consider aligning its Sustainable Finance policy with the sustainable development strategy of Bahrain.

For this, the CBB should consider coordinating with the Ministry of Finance, Electricity and Water Authority, Tamkeen, Bahrain Economic Development Board, Bahrain Development Bank, Supreme Council for Environment, Bahrain Association of Banks, and other related entities to help develop a sustainable development action plan. The action plan should be based on detailed planning and budgeting input from all stakeholders.

POLICY ACTION 1.2: DEFINING SUSTAINABLE FINANCE

While there is no universal definition of Sustainable Finance, the CBB may consider developing its own definition to better suit the social and economic conditions of Bahrain. The Sustainable Finance policy should also include various eligibility and qualifying criteria based on the experience of a select group of countries globally and within the region (some of which are included in the annexures).

As sustainable development includes infrastructure development and other social progresses, Sustainable Finance is very much an impactful finance (or more broadly known as ‘impact investing’). The CBB should consider integrating various data-driven impact measurement tools with the Sustainable Finance policy. Such tools may highlight qualitative as well as quantitative aspects of the impact created by Sustainable Finance.

POLICY ACTION 1.3: DEVELOPING BANKABLE PROJECT PIPELINE STRATEGY FOR BAHRAIN

A pipeline of sustainable development projects² will help the banking and financial services sector to support such projects with financing. As soon as the pipeline of few priority projects is available, the CBB should consider linking it with the Sustainable Finance policy. This will allow the policy incentives to be connected with the project pipeline. The project pipeline should include infrastructure and impact sectors projects.

¹ <https://sustainabledevelopment.un.org/post2015/transformingourworld>

² Pollution prevention and control projects, energy saving projects, renewable energy project, clean transportation, clean water supply project, wastewater treatment plant, solid & hazardous waste disposal plant, bio-gas plant, bio-fertilizer plant, brick manufacturing projects, environmental friendly consumer loans, waste recycling units

POLICY ACTION 1.4: **INCENTIVIZING SUSTAINABLE DEVELOPMENT PROJECTS AND BUSINESSES**

To allow greater interest by the GCC and international investors in Bahrain's sustainable development project pipeline, special incentives should be offered. Such incentives should be clearly reflected in the foreign direct investment (FDI) policy of Bahrain. Newer innovative tools such as Blended Finance and Social Credits³ can be used to enhance the efficiency of Bahrain's Sustainable Finance sector.

The CBB should consider offering incentives for Sustainable Finance broadly consistent with Green Finance incentives (Recommendation 2, Policy Action 2.3).

POLICY ACTION 1.5: **PURSuing LOCAL AND INTERNATIONAL COLLABORATION**

The Sustainable Finance policy should set out the relevant stakeholders locally and internationally. The local stakeholder engagement will assist in greater success of the Policy.

Internationally, the CBB should consider working closely with the relevant multilateral development finance institutions to develop appropriate credit support and enhancement mechanisms for Bahrain's Sustainable Finance sector.

Regulators and banking associations are quickly becoming part of the Sustainable Banking Network ("SBN") which has been established by and is being managed by the International Finance Corporation (IFC—a member of the World Bank Group). The CBB should consider becoming member of the SBN.

POLICY ACTION 1.6: **PROMOTING SUSTAINABLE CAPITAL MARKET**

Social impact bonds and green bonds are gaining popularity worldwide. Similar bonds/sukuk can help finance sustainable infrastructure projects in Bahrain, attracting classes of investors. Appropriate regulatory measures can help develop this niche market in Bahrain.

POLICY ACTION 1.7: **REPORTING SUSTAINABILITY**

Bahrain's banking and finance sector contributes to sustainability and economic growth of Bahrain in a diverse way. Each institution has its own set of priorities and policies for such contribution. Encouraging the banking and finance sector to report their respective contributions in a standardized way would deepen the impact of its growing contribution. The CBB should consider providing guidelines for sustainable reporting and green tagging as referred to in Policy Action 2.3.

POLICY ACTION 1.8: **FORMING SUSTAINABILITY THINK-TANK AND NATIONAL SUSTAINABILITY COMMITTEE**

Establishing a specialized think-tank with the primary objective of exchanging global best practices will go a long way in enhancing the deep-rooted commitment to sustainability. With the support of United Nations and multilateral development finance institutions, the think-tank should be jointly established by the Bahrain Institute for Banking and Finance and Derasat.

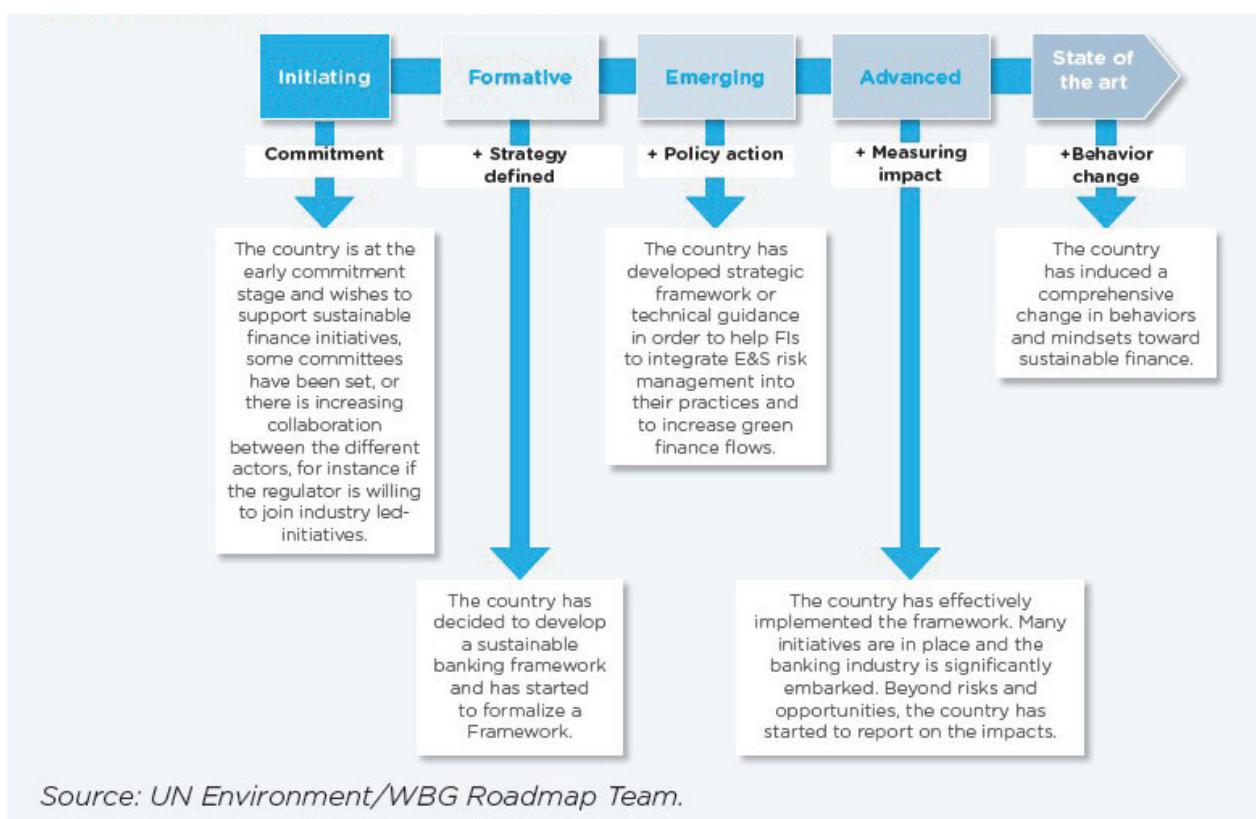
On similar lines, under the leadership of CBB, a high-level multi-stakeholder, public-private, national steering committee should be formed to oversee and coordinate all the Sustainable Finance initiatives in a coherent and well-coordinated way.

³ The Social Credits mechanism has been included in B20 Financing Growth and Infrastructure Taskforce Policy Paper (page 35, as a recommendation on what should be covered in Compact with Africa). Previously, it was recommended by the B20 Energy Forum (attached please find a brief slide containing the excerpts from the B20 Energy Forum Recommendation (2015)).

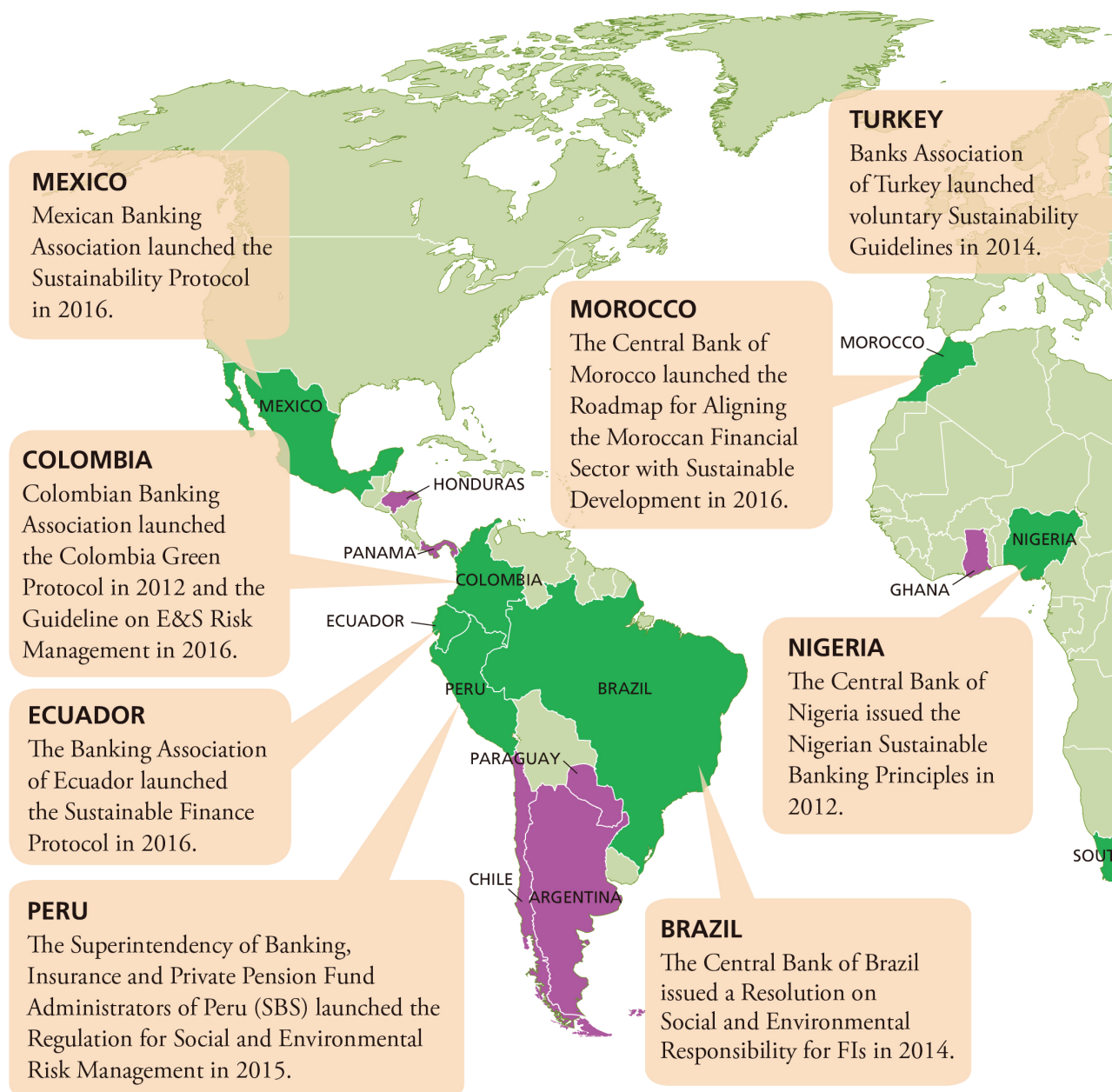
POLICY ACTION 1.9: PROMOTING THOUGHT LEADERSHIP AND PUBLIC AWARENESS

An appropriate public awareness strategy for Bahrain's Sustainable Finance will help spread greater awareness within Bahrain. This will solidify the culture of sustainability for the younger generations. Also, this will further boost Bahrain as a leading financial centre.

SBN PROGRESSION MATRIX

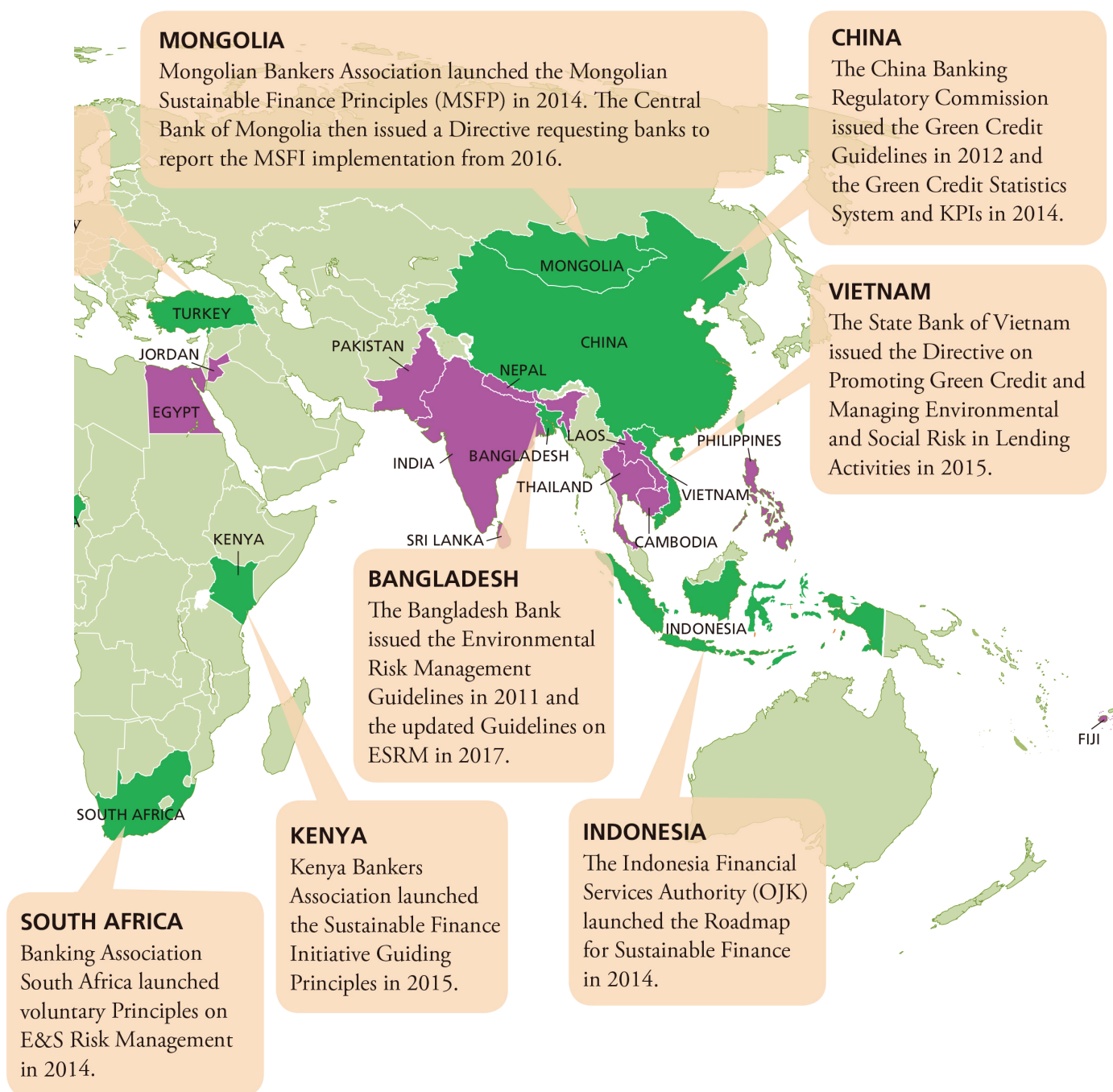


IFC'S SUSTAINABLE BANKING NETWORK MEMBERSHIP MAP



Disclaimer:

This map was produced by Staff of the World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.



- **Existing guidance:** Bangladesh, Brazil, China, Colombia, Ecuador, Indonesia, Kenya, Mexico, Mongolia, Morocco, Nigeria, Peru, South Africa, Turkey, Vietnam
- **In dialogue:** Argentina, Cambodia, Chile, Egypt, Fiji, Ghana, Honduras, India, Jordan, Laos, Nepal, Pakistan, Panama, Paraguay, Philippines, Sri Lanka, Thailand

(<http://www.ifc.org/wps/wcm/connect/442c2236-8873-4606-bde8-065cff240070/SBN+Membership+Map.pdf?MOD=AJPERES>)

RECOMMENDATION 2**| DEVELOPING
SUPPORT
MECHANISM FOR
GREEN FINANCE
IN BAHRAIN**

Green Finance is becoming increasingly popular globally. Most countries are getting ready to capitalize on the opportunity of Green Finance for various competitive and efficiency considerations. Expanding on Recommendation 1, the CBB should consider formulating the Green Finance ecosystem not only to benefit from the opportunities of this growing sector but also to stay ahead of the regional markets.

**POLICY ACTION 2.1:
DEVELOPING GREEN FINANCE
POLICY FRAMEWORK**

Green Finance has the potential to make the banking and financial services sector stronger, more resilient with better understanding of various risks by encouraging banks and financial institutions to invest and extend financing facilities to entities engaged in the field of improving the environment.

Green Finance can be instrumental for Bahrain in driving growth, boosting the economy and improving the environmental condition. Creating awareness among the financial sector and educating the stakeholders on the environmental condition of the world will enable these financial institutions target new investment opportunities that have not been fully explored by the industry. The financial sector's appetite to fund such projects will encourage the private sector to actively pursue

ACTION POINTS

- 1** DEVELOPING GREEN FINANCE POLICY FRAMEWORK
 - 2** DEFINING GREEN FINANCE, SPECIFYING ITS ELIGIBILITY CRITERIA
 - 3** GREEN TAGGING
 - 4** ISSUING REGULATORY AND OTHER INCENTIVES FOR GREEN FINANCE
 - 4.1** FAVOURABLE REGULATORY TREATMENT
 - 4.2** SOVEREIGN GREEN BONDS SHOULD BE REPO'ABLE
 - 4.3** PREFERENTIAL TAX TREATMENT FOR GREEN INSTRUMENTS
 - 5** MANDATORY TRAINING AND AWARENESS PROGRAMMES FOR INSTITUTIONS
- 

sustainable projects and businesses, which would stimulate the economy.

The CBB should consider developing a comprehensive Green Finance policy framework in line with Recommendation 1. The CBB should consider including Green Finance in the Rulebook to allow conventional and Islamic banks to offer Sustainable Green Finance products and services within the regulatory framework.

POLICY ACTION 2.2: DEFINING GREEN FINANCE, SPECIFYING ITS ELIGIBILITY CRITERIA

Based on the policy assessment (Recommendation 1, Policy Action 1.4 above), the CBB should consider developing a priority list within the project pipeline to be classified as 'Green Finance' and eligible for the regulatory incentives (Recommendation 2, Policy Action 2.4 below). These projects and sectors should include projects that would enhance Bahrain's economic sustainability and are environmentally friendly.

POLICY ACTION 2.3: GREEN TAGGING

The CBB should consider encouraging the banks to 'Green Tag'⁴ their balance sheets to identify sustainable and green assets and liabilities. This will facilitate assessing this size of sustainable/ green portfolios within the banking sector.

POLICY ACTION 2.4: ISSUING REGULATORY AND OTHER INCENTIVES FOR GREEN FINANCE

As regulator of Green Banking and Finance, the CBB should consider policy measures to support environmentally friendly initiatives and businesses that would incentivise the financial sector to extend financing facilities in line with the Green Finance policy framework⁵.

⁴ "Green Tagging refers to a systematic process where banks identify the environmental attributes of their loans and underlying asset collateral as a tool for scaling up Sustainable Finance. The Green Tagging of bank assets allows for easier access to green bond markets, better tracking of green loan performance and provides greater transparency of climate risks and portfolio resilience." <http://unepinquiry.org/news/leading-european-banks-show-how-green-tagging-can-drive-energy-efficiency-financing/>

⁵ Pollution prevention and control projects, energy saving projects, renewable energy project, clean transportation, clean water supply project, wastewater treatment plant, solid & hazardous waste disposal plant, bio-gas plant, bio-fertilizer plant, brick manufacturing projects, environmental friendly consumer loans, waste recycling units

POLICY ACTION 2.4.1 FAVOURABLE REGULATORY TREATMENT

CBB should consider offering preferential treatment to green related instruments (bonds, loans, sukuk, financing, etc.) such as preferential loan-to-deposit ratio, favourable risk weighting. As a result, only a certain percentage of green instruments can be included in the numerator for calculating loan-to-deposit ratio and are not subject to the policy of reducing the weight of risky assets.

With respect to less-liquid instruments, eligible institutions (already meeting the required capital-to-risk asset ratio and capable of providing sufficient capital), can be permitted to have access to preferential risk weighting.

The qualifying banks, holding any green bond/sukuk investments, should be able to seek, for example, 50% for the portion of risk asset corresponding to the green bonds/sukuk they hold when calculating their capital risk ratio. Any sovereign exposures should be exempted and accordingly carry zero risk weight.

POLICY ACTION 2.4.2: SOVEREIGN GREEN BONDS SHOULD BE REPO'ABLE

The repo rate for Bahrain government papers should be provided at a discount to help promote green investments. If the bond is in a hard currency, such as US Dollars, then the repo rate shall mirror international market levels depending on tenor and structure.

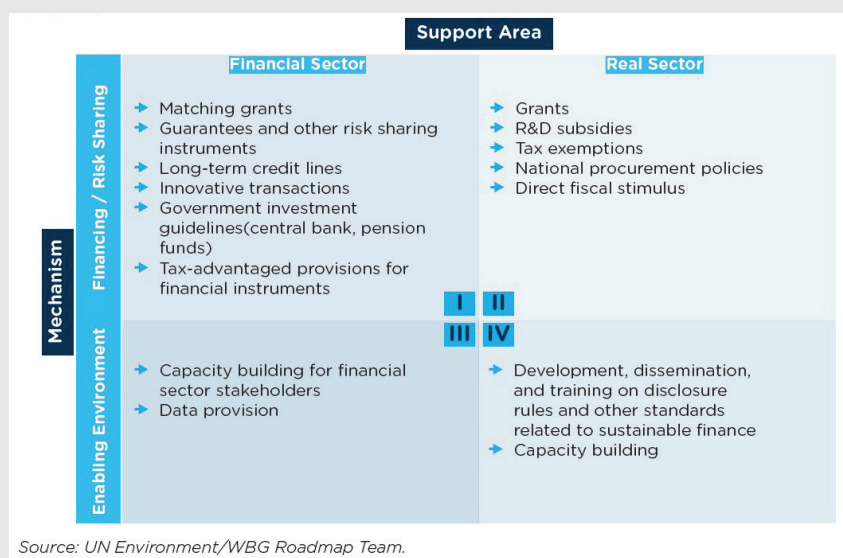
POLICY ACTION 2.4.3: PREFERENTIAL TAX TREATMENT FOR GREEN INSTRUMENTS

Tax, including VAT, exemptions for local and international green finance instruments should be explored and offered.

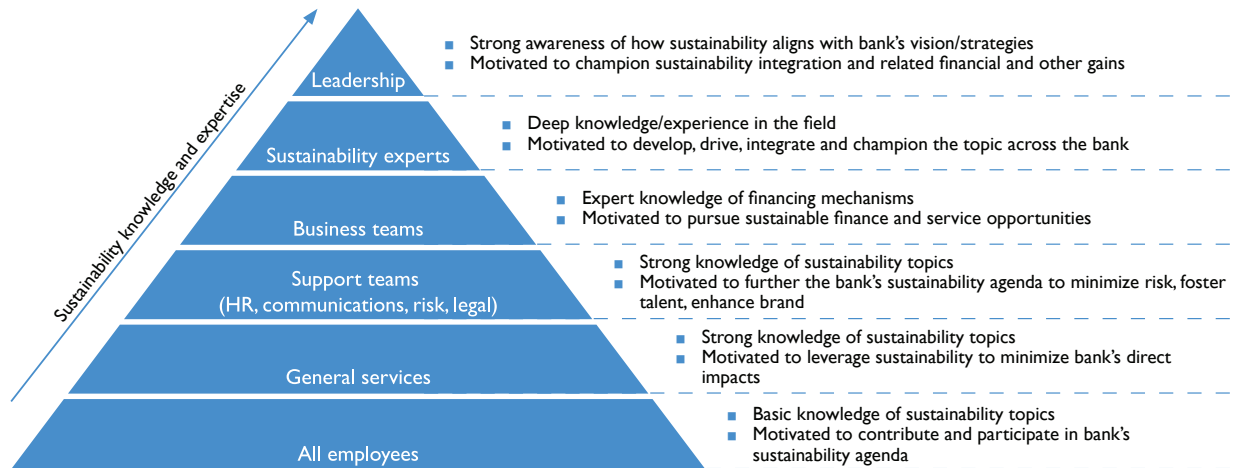
POLICY ACTION 2.5: MANDATORY TRAINING AND AWARENESS PROGRAMMES FOR INSTITUTIONS

The CBB should consider deploying mandatory Sustainable (and Green) Finance training courses to all new and existing employees on regular basis. This could be added to the current mandatory training requirements (such as AML and ethics courses).

TYOLOGY OF PUBLIC FINANCE INTERVENTIONS IN SUPPORT OF SUSTAINABLE FINANCE

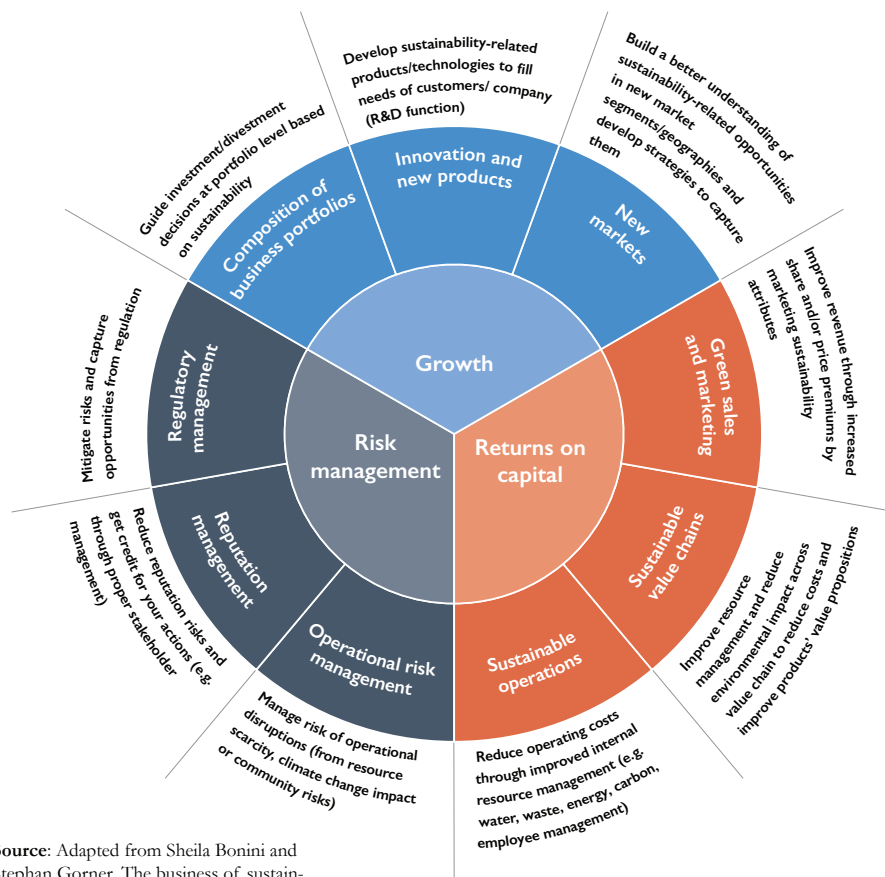


SUSTAINABILITY EXPERTISE AND KNOWLEDGE BY BANK DEPARTMENT



Source: UNEP Finance Initiative

VALUE CREATION OF SUSTAINABILITY



Source: Adapted from Sheila Bonini and Stephan Gerner, The business of sustainability: McKinsey Global Survey results, Oct 2011, mckinsey.com

SUSTAINABLE FINANCE OFFERINGS

Your bank may already have a number of existing offerings that in combination with new offers deliver a robust menu of options for your retail and SME clients such as follows.

INDIVIDUALS

TYPE OF PRODUCT/ SERVICE	SUSTAINABLE ASPECTS
Bank Accounts	<ul style="list-style-type: none"> Online/paperless process and statements Targeted solutions to promote access and inclusion to basic services such as checking and saving accounts via mobile banking
Payment Facilities	<ul style="list-style-type: none"> Online/paperless process and statements Targeted services with environmental and/or social benefits such as "green" affinity cards
Loans	<ul style="list-style-type: none"> Online/paperless process and statements Targeted products with environmental and/or social benefits such as green mortgages, hybrid or alternative fuel vehicles, education
Savings Facilities	<ul style="list-style-type: none"> Online/paperless process and statements Targeted accounts and products (e.g. certificates of deposit, bonds, investment accounts) that allow the client to choose from a menu of sustainability themes to responsibly save or invest in

SMEs

TYPE OF PRODUCT/ SERVICE	SUSTAINABLE ASPECTS
Bank Accounts	<ul style="list-style-type: none"> Online/paperless process and statements Targeted solutions to promote access and inclusion to basic services such as checking and saving accounts via mobile banking
Payment Facilities	<ul style="list-style-type: none"> Online/paperless process and statements Targeted services with environmental and/or social benefits such as "green" affinity cards
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Savings Facilities	<ul style="list-style-type: none"> Online/paperless process and statements Targeted accounts and products (e.g. certificates of deposit, bonds, investment accounts) that allow the client to choose from a menu of sustainability themes to responsibly save or invest in
Advisory Services	<ul style="list-style-type: none"> Targeted services for assistance with environmental and social risk management Targeted services for assistance with business management such as marketing of sustainable aspects of SME

Source: UNEP Finance Initiative

RECOMMENDATION 3

| INTERNALIZING SUSTAINABILITY

While regulatory and policy push is important to kick-start sustainable and green finance sector in Bahrain, the banking and financial services sector should also proactively take the lead and take steps to embrace the Sustainable and Green Finance sector. The preparation at the end of the banking and financial services sector will certainly support the regulatory and policy drive, creating an optimal comprehensive stakeholder engagement.

ACTION POINTS

- | | | |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------|
| 1 PLEDGING PERCENTAGE OF PORTFOLIO FOR SUSTAINABLE AND GREEN INVESTMENTS | 2 GREEN INVESTMENT VEHICLE VIA SUSTAINABLE FINANCE CONSORTIUM | 3 INCORPORATION OF ENVIRONMENTAL RISK IN CREDIT RISK MANAGEMENT (CRM) |
| 4 INITIATING IN-HOUSE ENVIRONMENT MANAGEMENT | 5 PROFESSIONAL TRAINING AND SUSTAINABILITY AWARENESS | 6 CONDUCT SUSTAINABLE STRATEGIC PLANNING |
| 7 DESIGN AND INTRODUCE INNOVATIVE GREEN PRODUCTS | 8 DISCLOSURE AND REPORTING OF GREEN BANKING ACTIVITIES | |



POLICY ACTION 3.1: PLEDGING FUNDS FOR SUSTAINABLE AND GREEN INVESTMENTS

The CBB should consider encouraging the banks and financial institutions to have a minimum fund allocation strategy (i.e., possibly a percentage of loan/investment portfolio) to finance sustainable and green projects and businesses. In the meantime, and working in parallel, the banks can develop strategies for optimal utilization of the allocated funds.

The CBB should also consider developing a regulatory mechanism whereby the unutilized portion of the allocated portfolio of the banks and financial institutions may be placed with the CBB for a preferential return. The CBB should consider using such funds for its own investments in sustainable and green investments.

POLICY ACTION 3.2: GREEN INVESTMENT VEHICLE VIA SUSTAINABLE FINANCE CONSORTIUM

Given the specialized nature of Sustainable and Green Finance, the banks and financial institutions in Bahrain may opt to develop in-house expertise to conduct their due diligence and manage their respective sustainable and green investments.

The banks and financial institutions in Bahrain may also collectively consider establishing a specialized vehicle that has the requisite technical know-how to facilitate investments in sustainable and green projects, among others, evaluate such projects for environmental risk management and analyse counterparty risk, default risks, execution risk.

The vehicle can be established from the blended participation by various stakeholders, forming a Sustainable Finance Consortium.

Contributions into the Consortium should have preferential regulatory treatment, where applicable, such as a lower or zero risk-weighting to incentivize institutions and individuals to invest in such eco-friendly projects and funds.

POLICY ACTION 3.3: INCORPORATION OF ENVIRONMENTAL RISK IN CREDIT RISK MANAGEMENT (CRM)

The banks should include environmental risk management in their credit risk management processes. Banks should also be encouraged to develop Green Finance Strategies, Policies and Procedures to incorporate the environmental, social and governance (ESG) risk management factors in the overall credit/investment management process.

POLICY ACTION 3.4: INITIATING IN-HOUSE ENVIRONMENT MANAGEMENT

Banks and financial institutions should formulate a set of general instructions for their employees for efficient use of utility services and other resources to ensure energy savings, less wastage creation and promote recycling (including waste management of electronics). The banks and financial institutions should explore using alternate energy sources (such as solar panels).

The banks and the financial institutions should disclose their respective progress periodically.

POLICY ACTION 3.5: PROFESSIONAL TRAINING AND SUSTAINABILITY AWARENESS

Events, workshops and seminars should be organized for different target groups to encourage compliance of clients, banks and institutions with the Sustainable Finance (e.g., environmental risk assessment training) regulations and undertake related activities.

Banks and financial institutions can develop internal mechanisms to track training of the key employees.

POLICY ACTION 3.6: CONDUCT SUSTAINABLE STRATEGIC PLANNING

All banks and financial institutions shall determine green targets to be attained through strategic planning. A set of achievable targets and strategies should be determined, and disclosed in the annual reports and websites for Sustainable and Green Financing.

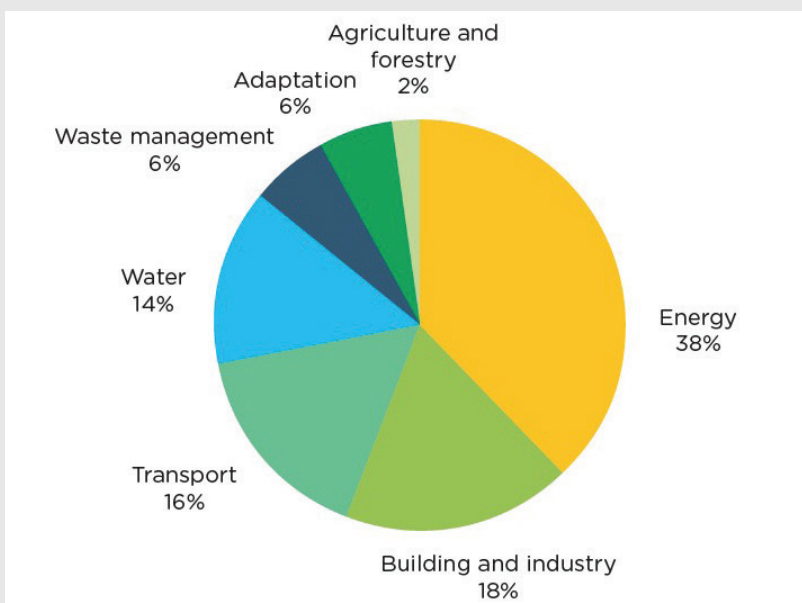
POLICY ACTION 3.7: DESIGN AND INTRODUCE INNOVATIVE GREEN PRODUCTS

Banks should be expected to introduce environment friendly innovative green products that address the core environmental challenges.

POLICY ACTION 3.8: DISCLOSURE AND REPORTING OF GREEN BANKING ACTIVITIES

As noted in Policy Action 1.7, CBB should consider developing guidelines on disclosure requirements for the banks and financial institutions regarding Sustainable and Green Finance activities, showing their past performances, current activities and future initiatives. This can be further expanded with the help of Global Reporting Initiative or any other (customized) reporting mechanism.

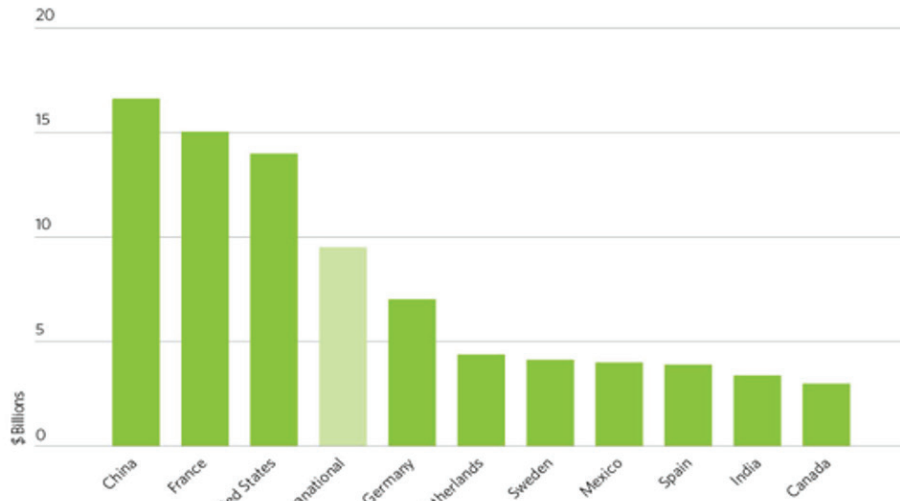
USE OF GREEN BOND PROCEEDS: 2016 ISSUANCE



Source: UNEP Environment/WBG Roadmap Team based on Climate Bonds Initiative (2017) data.

GLOBAL GROWTH OF GREEN BONDS

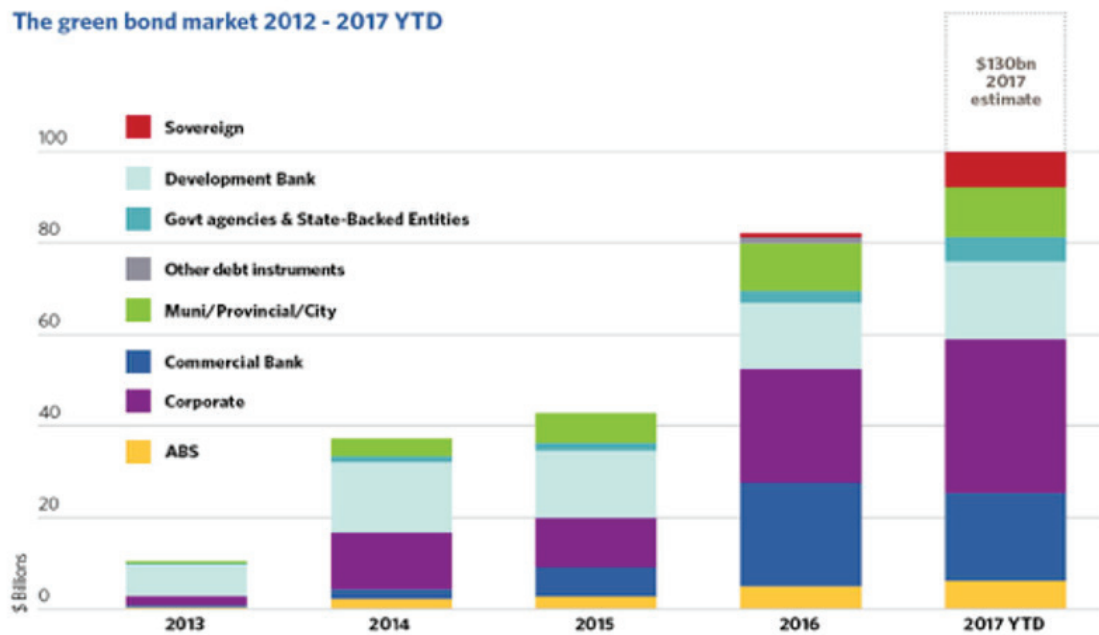
Top 10 countries plus supranational green bond issuance 2017 YTD



16.11.2017

Climate Bonds INITIATIVE

The green bond market 2012 - 2017 YTD



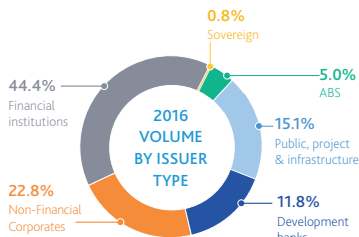
16.11.2017

Climate Bonds INITIATIVE

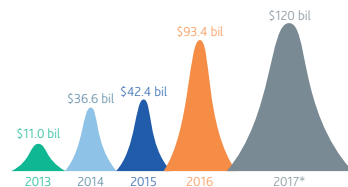
More information at moodys.com/GreenBonds

Moody's Green Bonds Assessment Overview

Green Bonds are defined as fixed-income securities that raise capital for use in projects or activities with specific climate or environmental sustainability purposes.



GREEN BOND ISSUANCE VOLUME UPDATE



ASSESSMENTS ARE DISTILLED FROM AN EVALUATION OF FIVE BROAD FACTORS



MOODY'S GREEN BOND ASSESSMENTS ARE EXPRESSED USING A SCALE RANGING FROM GB1 TO GB5. VARIOUS SUB-FACTOR CONSIDERATIONS ARE ALSO ESSENTIAL TO THE FINAL GRADE.



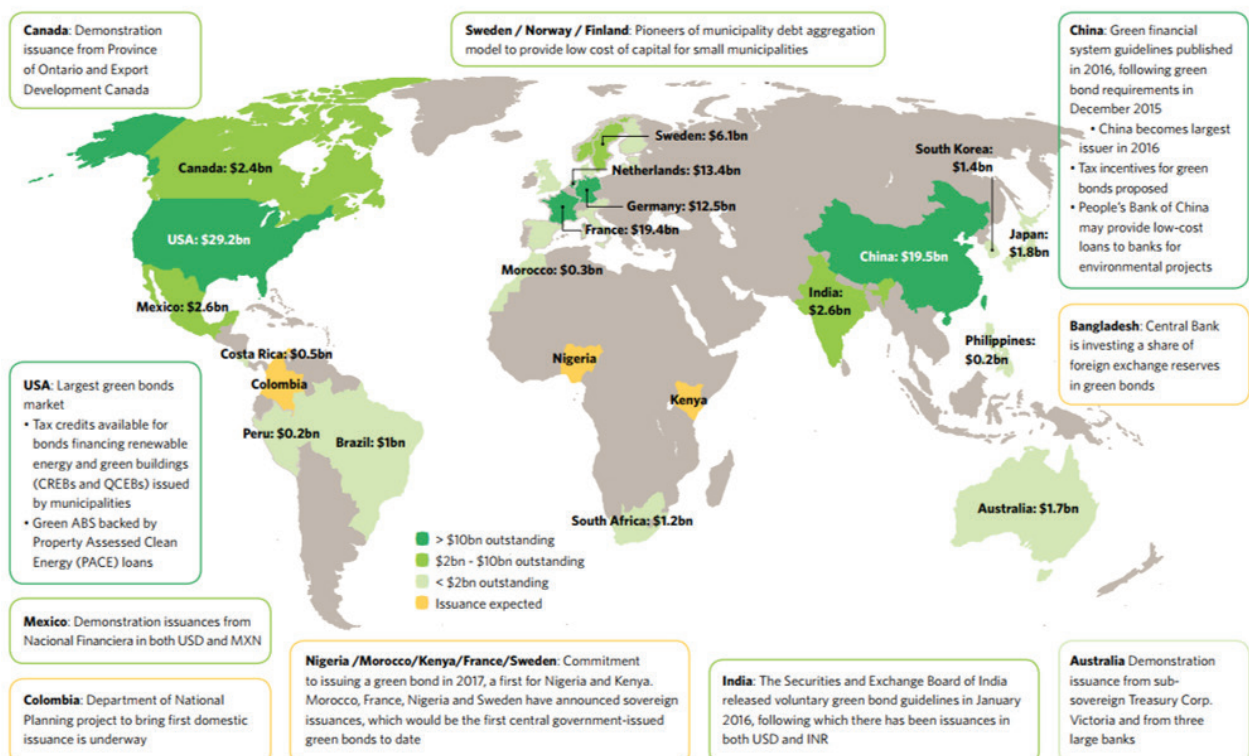
MOODY'S
INVESTORS SERVICE

* 2017 volume based on Moody's projection. Primary data sources include Moody's, Climate Bonds Initiative, Environmental Finance, Dealogic and Bloomberg.

** Percentage of proceeds allocated to eligible project categories also forms an important part of the evaluation.

Climate Bonds

Leaders in the green bond market



RECOMMENDATION 4

BAHRAIN GREEN FUND

Consistent with the global best practices, CBB should consider establishing a national credit support and enhancement fund (“Bahrain Green Fund”) to manage appropriately the risks associated with the sustainable projects and counterparties.

ACTION POINTS

- 1 ESTABLISHING BAHRAIN GREEN FUND FOR CREDIT SUPPORT

2 DEVELOPING FUND STAKEHOLDERS, GLOBAL COORDINATION

3 INCLUSIVE MANDATE
- 4 BAHRAIN GREEN FUND STRATEGIC PLAN



POLICY ACTION 4.1: ESTABLISHING BAHRAIN GREEN FUND FOR CREDIT SUPPORT

The CBB should consider developing various risk categories of the banks' customers. Based on such risk matrix, specified counterparties may be eligible for credit support and enhancement from the Bahrain Green Fund. This will help manage the portfolio risk of the banking sector in Bahrain.

POLICY ACTION 4.2: DEVELOPING FUND STAKEHOLDERS, GLOBAL COORDINATION

The credit enhancement and support mechanism may be developed in collaboration with the World Bank Group, other multilaterals, regional sovereign wealth funds, Islamic Development Bank, the GCC Fund and the Green Climate Fund.

It would be critical to have maximum regional and global support for the Fund to avoid any leveraging implications at the sovereign level. The CBB should consider initiating a dialogue with various international stakeholders as early as possible.

The CBB should consider allowing charitable participation into the Fund.

POLICY ACTION 4.3: INCLUSIVE MANDATE

The Fund's mandate should be inclusive enough to include a wide array of sustainable and green projects and businesses. The mandate should also include the provision of credit support and working capital to the social, technology and other entrepreneurs, and to the start-ups. This can be closely coordinated among the Bahrain Green Fund, Tamkeen and Bahrain Development Bank.

POLICY ACTION 4.4: BAHRAIN GREEN FUND STRATEGIC PLAN

The National Sustainability Committee and the Think-tank (Recommendation 1.8) should work closely with relevant stakeholders to develop a comprehensive strategic plan for the Bahrain Green Fund, which shall include, but not limited to the fund's terms of reference, governance, policies and procedures, financial structure, and mandate.



ANNEXURES

ANNEX 1:

BAHRAIN ASSOCIATION OF BANKS SUSTAINABLE DEVELOPMENT COMMITTEE

TERMS OF REFERENCE (CHARTER)

Background

The Kingdom of Bahrain has adopted the 2030 Sustainable Development Agenda of United Nations which includes the 17 Sustainable Development Goals¹ (SDGs). The SDGs represents a sets of commitments that all the members of the United Nations agreed to, and the banking and financial sector world-wide has keenly commenced its support and contribution towards the SDGs.

The Bahrain Association of Banks is committed to supporting the Bahrain's banking sector in playing its part in Bahrain's sustainable development and economic growth by way of deeper social engagement and responsibility.

Purpose

The purpose of establishing the Sustainable Development Committee is:

- (i) to assist the Board of Directors and Members of the Association in assessing, implementing and measuring the contribution of the banking sector in the sustainable development and economic growth of Bahrain in line with the 2030 Sustainable Development Agenda;
- (ii) to submit recommendations to the Board of Directors for policy initiatives and incentives to encourage greater participation of the banking sector in the sustainable development and economic growth of Bahrain; and
- (iii) to engage with various stakeholders within Bahrain and otherwise with regard to engaging and implementing a broader social responsibility agenda of the banking sector in Bahrain.

Members of the Committee

The Committee shall be composed of the following members:

No.	Name	Bank	Title	Designation
1	Dr. Ali Adnan Ibrahim	Al Baraka Banking Group	First Vice President - Head of Social Responsibility	Chairman
2	Subah A. Latif Al Zayani	Kuwait Finance House	Senior Manager - Head of Business Development	Deputy Chairman
3	Yousif Musayeb	Kuwait Finance House	Assistant Manager – Enterprise Risk Management	Committee Secretary
4	Hussain Al Banna	Bahrain Islamic Bank	AGM, Head of Treasury	Member
5	Hanadi Araik	Gulf International Bank	Corporate Communications	Member
6	Subah Abdulrahman Alzayani	Khaleeji Commercial Bank	Head of Corporate Communications	Member
7	Arif Mohammed Janahi	Al Salam Bank	Head of Corporate Banking	Member
8	Rafa Kaddoura	Bank of Bahrain and Kuwait	Department Head – Corporate Communication	Member
9	Nadera Abuali	Citibank	PR Head	Member
10	Dr. Ali Al-Moulani	National Bank of Bahrain	Head-FX & MM Foreign Exchange & Money Market	Member
11	Latifa Khalfan	CrediMax	Head of HR	Member
12	Zeeba Askar	Ithmaar Bank	Director, Investments	Member
13	Fatema Yusuf	Bank ABC	Public Relations Manager - Group Corporate Communications	Member
14	Noora Al Nusuf	Standard Chartered Bank	Head of Corporate Affairs and Brand and Marketing	Member
15	James Brazier	BNP Paribas	MEA Head of CSR, Conduct and Corporate Governance	Member

The Committee may invite individuals or experts to attend its meetings or present reports and studies to the Committee. Such invitees shall not have the right to vote on the resolutions of the Committee.

Any member who does not attend three consecutive meetings of the Committee without cause shall automatically cease to be a member of the Committee and shall be replaced by the Board of Directors.

Responsibilities

The Committee shall work as forum for the discussion, training, and dissemination of international standards and best practices, new strategies and ideas related to the role of banking industry in the sustainable development, and in relation thereto;

liaise with relevant ministries, CBB, other regulatory authorities, other public bodies, businesses and international organisations to explore and adopt business policies and practices that best serve the above Purpose;

help members of the Association to adopt and apply standards and policies to achieve the Purpose;

report to the Board of Directors on frequent basis or as and when required to do so by the Board on their work; and

conduct itself in ways appropriate to meet the directions of the Board and the Purpose.

Governance and Reporting

The Committee shall work under the direct supervision of the Board of Directors and with co-operation with the Chief Executive Officer.

Any study, report or recommendation approved by the Committee shall be submitted to the Chief Executive Officer in order to be presented to the Board of Directors or the CBB or any other regulatory authority.

Meetings

The Committee shall meet at least four times a year (every three months). The Chairman of the committee, if he deems fit, may call for additional meetings.

Secretary

The Committee may appoint a secretary from its members or from outside who shall be responsible for preparing and distributing the minutes which shall be presented for the Board for perusal.

Sustainable Development Goals

- Goal 1. End poverty in all its forms everywhere
- Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- Goal 3. Ensure healthy lives and promote well-being for all at all ages
- Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5. Achieve gender equality and empower all women and girls
- Goal 6. Ensure availability and sustainable management of water and sanitation for all
- Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- Goal 10. Reduce inequality within and among countries
- Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable
- Goal 12. Ensure sustainable consumption and production patterns
- Goal 13. Take urgent action to combat climate change and its impacts
- Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- Goal 17. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

ANNEX 2:

SUPPORTING & ADDITIONAL MATERIALS

2017

1. Road map for a sustainable financial system (UN Environment Inquiry).
2. Enhancing Environmental Risk Analysis in Financial Decision-making (Bank of England, UN Environment Inquiry, University of Cambridge Institute for Sustainability Leadership)
3. Improving the Availability and Usefulness of Publicly Available Environmental Data for Financial Analysis (China Green Finance Committee and UN Environment Inquiry)
4. Green Finance: G20 Progress Update 2017 (UN Environment Inquiry).
5. Consolidated Banking Guide (UNIP Financial Initiative)

2016

1. Definitions and Concepts: Background Note (UN Environment)
2. Environmental Risk Analysis by Financial Institutions (University of Cambridge (CISL))
3. Greening Institutional Investment (PRI/UNEP FI)
4. Greening the Banking System: Experiences from the Sustainable Banking Network (SBN/IFC)
5. Outline Framework for Measuring Progress on Green Finance (WBG)
6. Green Bonds: Country Experiences, Barriers and Options (OECD/ICMA/CBI/China GFC)
7. Analytical Report on Investment Governance and the Integration of ESG Factors (OECD)
8. Quantitative Framework: Analysing Potential Bond Contributions in a Low-Carbon Transition (OECD)
9. Greening the Banking System: Taking Stock of G20 Green Banking Market Practice (UN Environment)
10. Greening Banking Policy (University of Zurich)
11. Progress Report on Approaches to Mobilising Institutional Investment for Green Infrastructure (OECD)
12. Green Bonds – Certification, Shades of Green, and Environmental Risks (BIS)
13. Report on the Swiss Private Sector Workshop (Bern, May 2016)- ‘Modeling and Assessing Environmental Risks’ (Swiss Federal Department of Finance)
14. An Initial Analytical Framework and Research Roadmap: Implications of Green Finance for the Cost of Capital, Growth, and Financial Stability (IMF)

ANNEX 3:

GLOBAL AND REGIONAL TRENDS

Thanks to kind support of Dr. Mohamed Mubarak bin Daina, Chief Executive of the Supreme Council for Environment, an outstanding team comprising Mr. Hamad Al Mahmeed, Mr. Shaheen Shaheen, Ms. Amna AlAryedh, and Ms. Nora AlAmer prepared a comprehensive research on the global and regional trends on green finance (the benchmarking study). Inasmuch as we would have liked, the benchmarking study is not included here because of its larger size but it is available on file with the Committee to share separately.

The Committee remains grateful for all the kind support from the above group enabling it to develop the current Policy Paper.

Policy Recommendations for Regulatory Considerations on
SUSTAINABLE FINANCE

Prepared by:
Sustainable Development Committee

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Bahrain Association
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