

Adapting Together, Thriving Tomorrow



Enabling Environment for Private Sector Investment in Climate Change Adaptation in Ghana

Banks and Non-financial Institutions Engagement and Due Diligence Development Strategy.



Contacts Information

No. 91 Starlet Street, Opp

Telephone: 050 6694760 /

050 6699466

P.O. Box M.326

info@epa.gov.gh

www.epa.gov.gh

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SECTION 1: BACKGROUND

1.1. Introduction

Adaptation to climate change comprises all actions aimed at reducing the vulnerability of human and natural systems to the current and future effects of climate change, including climate variability. The role of the private sector in addressing climate change has been very high on the agenda in recent times. This is due to the growing body of evidence pointing to both the risks that climate change poses to the private sector and the importance and feasibility of adaptive measures to increase climate resilience in the private sector. The objective is to identify and address environmental risks associated with the project to protect the bank's interests, mitigate potential adverse impacts, and promote sustainable lending practices.

Globally, banks and non-financial institutions' environmental risk due diligence is critical in identifying and evaluating potential environmental risks associated with projects or activities they finance. A comprehensive due diligence assessment to identify potential environmental and social risks in lending and investment portfolios is vital for addressing sustainability issues in Ghana. This enables effective risk management, compliance with regulations and standards, builds reputation and stakeholder trust, supports informed decision-making, enhances financial performance, drives positive impact, and aligns with evolving regulatory and investor expectations and contribute to sustainable development. It enables banks and non-banking financial institutions to make informed lending decisions, finance environmentally responsible projects, and mitigate potential adverse environmental impacts.

The National Adaptation Planning (NAP) framework in Ghana focus on building resilience to climate change impacts and promoting sustainable development. The NAP framework recognizes the critical role of financial institutions in ensuring effective climate change adaptation financing, planning and implementation in Ghana. Banks and non-financial institutions in Ghana have been identified as having the potential to play a significant role in supporting country's efforts in building resilience to climate change by actively engaging in sustainable finance practices and integrating climate resilience, environment, and social risks into their operations. Integrating sustainability banking initiatives through due diligence in line with Ghana's NAP priorities can enhance the country's efforts in addressing climate change and sustainable development.

As part of the NAP process to scale up private sector involvement in climate change adaptation financing, the NAP project is engaging banks and non-banking financial institutions in developing due diligence strategy and exploring options for a certification system to reward/recognize institutions that are applying climate-informed NAP principles to business decision-making. Therefore, a comprehensive due diligence process by financial institutions to identify potential environmental and social risks in lending and investment portfolios is of great importance to ensure responsible lending practices and minimize potential negative impacts. Sustainability banking initiatives have gained momentum recently as financial institutions recognize the importance of integrating environmental, social, and governance (ESG) factors into their operations. These initiatives aim to promote sustainable development, address social and environmental challenges, and support Ghana's Nationally Determined Contributions (NDCs) commitment and also the United Nations Sustainable Development Goals (SDGs). By incorporating climate and environmental risk assessment into lending practices, banks can contribute to sustainable development while safeguarding their reputation and protecting themselves from current and future climate change risks.

1.2. Objectives

This assignment seeks to:

- Engage with banks and non-banking financial institutions to develop due diligence requirements in line with national adaptation priorities by aligning the due diligence processes of the financial institutions with the national adaptation priorities and objectives outlined in the national adaptation strategy.
- Explore options of a certification system to reward/recognize companies applying credible adaptation and climate resilience principles to business.
- Integrate national adaptation priorities into due diligence requirements, financial institutions to contribute to building climate resilience, and support sustainable projects in line with the broader goals of national adaptation frameworks.
- Examine how financial institutions are identifying and mitigating the potential environmental and social risks in their lending activities.
- Establish criteria for a certification system for the NAP to collaborate with institutions such as the Bank of Ghana to recognize sustainable banks in Ghana by identifying clear criteria, assessment processes, and verification mechanisms to evaluate and certify banks based on their sustainability performance.

1.3. Approach and Methodology

In line with the objectives, the consultants approached the assignment in four main stages. The first stage was the organization of stakeholder training and sensitization program for banks and non-banking financial institutions. The second phase involves a comprehensive review of NAP framework, priorities and the bank of Ghana's sustainability banking principles. The aim was to understand national adaptation priorities outlined in the strategy, establish synergies and how the sustainable banking principles are aligned with national adaptation priorities. The outcome of the review guided the development of the research instruments for field data collection. The questionnaire captured information related to exposure to environmental and social risks (sector, types), E&S due diligence in lending, environmental and social protection into credit risk assessment regulations, risks factors before granting loans to customers, due diligence criteria that financial institutions consider when assessing projects, mitigation of environmental and social risks, E&S assessment tools and internal capacity, and environmental & Social Management System (ESMS). The third phase was the data collection from 15 banks and non-financial institutions in Accra. Based on the findings and review of relevant documents, criteria for a certification system for the NAP to collaborate with institutions such as the Bank of Ghana to recognize sustainable banks in Ghana by identifying criteria, assessment processes, and verification mechanisms to evaluate and certify banks based on their sustainability performance for awards.

1.4. Structure of the Report

This document comprises of six main sections. Section 1 is the introduction to the document. It covers background information on the broad elements of banks and non-financial institutions' environmental risk due diligence and the linkages with NAP. Chapter 2 presents NAP Priorities and sustainability banking principles. The section synthesizes and highlights the linkages between National Adaptation Plan (NAP) priorities and sustainability banking principles in Ghana. Section three presents the results of the assessment. Section 4 is the proposed certification system for the recognition of banks and non-banking financial institutions while section 5 provides recommendations and conclusions.

SECTION 2: NAP PRIORITIES AND SUSTAINABILITY BANKING

2.1. Nap Priorities and Sustainability Banking

National Adaptation Plans (NAPs) and sustainability banking are two interconnected concepts that work together to address the challenges of climate change and promote sustainable development. The NAPs serve as a strategic framework at the national level and subnational levels, guiding countries in identifying and prioritizing their adaptation needs, developing strategies, and implementing actions to build resilience to climate change impacts. It provides a roadmap for countries to assess their vulnerability, develop adaptation plans, mobilize resources, and engage stakeholders in climate action. Financial institutions can play a crucial role in supporting the implementation of the NAPs by providing the necessary financial resources, expertise, and innovative financial products to fund climate change adaptation projects and programmes. Financial institutions can also contribute to the NAP's objectives by incorporating climate risk assessments, environmental impact assessments, and social impact assessments into their lending and investment decision-making. This section synthesizes the linkages between Ghana's National Adaptation Plan (NAP) framework, and the Bank of Ghana's sustainability banking principles, and Sector Guidance Notes.

The NAP framework focuses on building resilience to climate change impacts and promoting sustainable development. The sustainability banking principles also focus on assisting banks in Ghana to respond to emerging global issues, including environmental and climate change. It encompasses a set of guidelines and practices that financial institutions adopt to integrate environmental, social, and governance (ESG) considerations into their operations and decision-making processes as a demonstration of their commitment to reducing economic imbalance and social inequality and mitigating environmental pollution and climate change.

The principles are applied to five critical sectors:

- i. agriculture and forestry;
- ii. construction and real estate;
- iii. manufacturing;
- iv. oil and gas and mining;
- v. power and energy,

Three of these principles complement two of the NAP priority sectors, namely agriculture, forestry, and energy. The NAP framework and sustainability banking principles are complementary initiatives to mitigate the effects of climate change, promote sustainable development, and increase resilience. As a result, putting NAP in place and pursuing sustainability banking initiatives will aim to boost the country's efforts to combat climate change and achieve sustainable development. The subsequent section presents key complementary issues for the NAP and Sustainability banking initiatives.

2.2. Key Complementary Issues in NAP and Sustainability Banking

Integration of Climate Change Considerations: NAP framework and sustainability banking emphasize the integration of climate change considerations into business decision-making processes. Principle 1 (Environmental and Social Risk Management) and Principle 2 (Internal Environment and Social Governance in banks operations) particularly **recognize** the need to identify, assess, and manage climate risks, adapt to

changing climatic conditions, and enjoin the banks to adopt policies and procedures, conduct training, and ensure clients report on their E&S performance. The NAP framework also acknowledges the role of the bank and clients in minimizing climate impacts on business operations and markets, as well as creating markets for technologies and services that help adaptation. These complementary practices promote sustainable practices that minimize negative environmental impacts.

Collaboration and Stakeholder Engagement: The NAP framework and sustainability banking principles emphasize the importance of collaboration and stakeholder engagement. They recognize that addressing climate change and adaptation actions and promoting sustainability requires collective efforts involving government agencies, financial institutions, communities, civil society organizations, and other relevant stakeholders. Collaboration ensures a holistic approach, knowledge sharing, and effective implementation of climate adaptation and sustainability initiatives.

Resilience Building: Ghana's NAP framework and sustainability banking initiatives focus on resilience to climate change impacts. They aim to strengthen the ability of communities, businesses, and ecosystems to withstand and recover from climate-related shocks and stresses. This includes supporting climate-resilient infrastructure, diversifying livelihoods, and promoting adaptive practices that enhance long-term sustainability.

Sustainable Financing: Sustainability banking principles and the NAP framework emphasize the importance of considering environmental, social, and governance in investment decisions to support climate adaptation and sustainability projects. They encourage financial institutions to provide funding mechanisms, investment options, and financial products that align with sustainability goals and prioritize climate resilience. This includes green bonds and green financing for renewable energy projects, sustainable agriculture, and climate adaptation initiatives.

Risk Assessment and Management: Both the NAP framework and sustainability banking principles emphasize the importance of assessing and managing climate-related risks. They promote the integration of climate risk assessments into decision-making processes, ensuring that financial institutions and other stakeholders can identify and address climate vulnerabilities effectively. This enables them to make informed investment choices, develop appropriate risk management strategies, and support climate-resilient projects.

Transparency and Reporting: The NAP framework and sustainability banking principles highlight the importance of transparency and reporting. They encourage financial institutions and stakeholders to disclose their sustainability performance, including climate-related metrics, environmental impacts, and social considerations. For example, Sustainability Banking Principle 7 on Reporting seeks to shed light on the contribution of the banking sector to environmental and social development through their report on environment and social performance, which could serve as further input to the adaptation communication and national communication reporting requirements of Ghana to the United Nations Framework Convention on Climate Change. Transparent reporting fosters accountability, supports informed decision-making, and facilitates monitoring progress toward sustainability and climate resilience goals.

Capacity Building and Knowledge Sharing: The NAP framework and sustainability banking principles 1, 2, and 3 recognize the need for capacity building and knowledge sharing to promote effective climate adaptation and sustainability practices. They encourage financial institutions to provide training and knowledge-sharing platforms that enhance stakeholders' understanding of climate change impacts, adaptive strategies, and sustainable development principles. This strengthens the capacity of individuals, communities, and organizations to respond to climate challenges effectively.

The collaboration between the NAP and sustainability banking principles is crucial for achieving climate and sustainability objectives in Ghana. It will align national priorities with financial sector practices, ensuring that

investments and financing decisions are directed toward sustainable and climate-resilient projects. In summary, the NAP and sustainability banking principles form a synergistic partnership in addressing climate change and promoting sustainable development. The NAP provides a strategic framework for adaptation planning, while sustainability banking principles guide financial institutions in incorporating sustainability considerations into their operations. Together, they contribute to building climate resilience, mobilizing financial resources, and promoting sustainable investments for a more sustainable and resilient future.

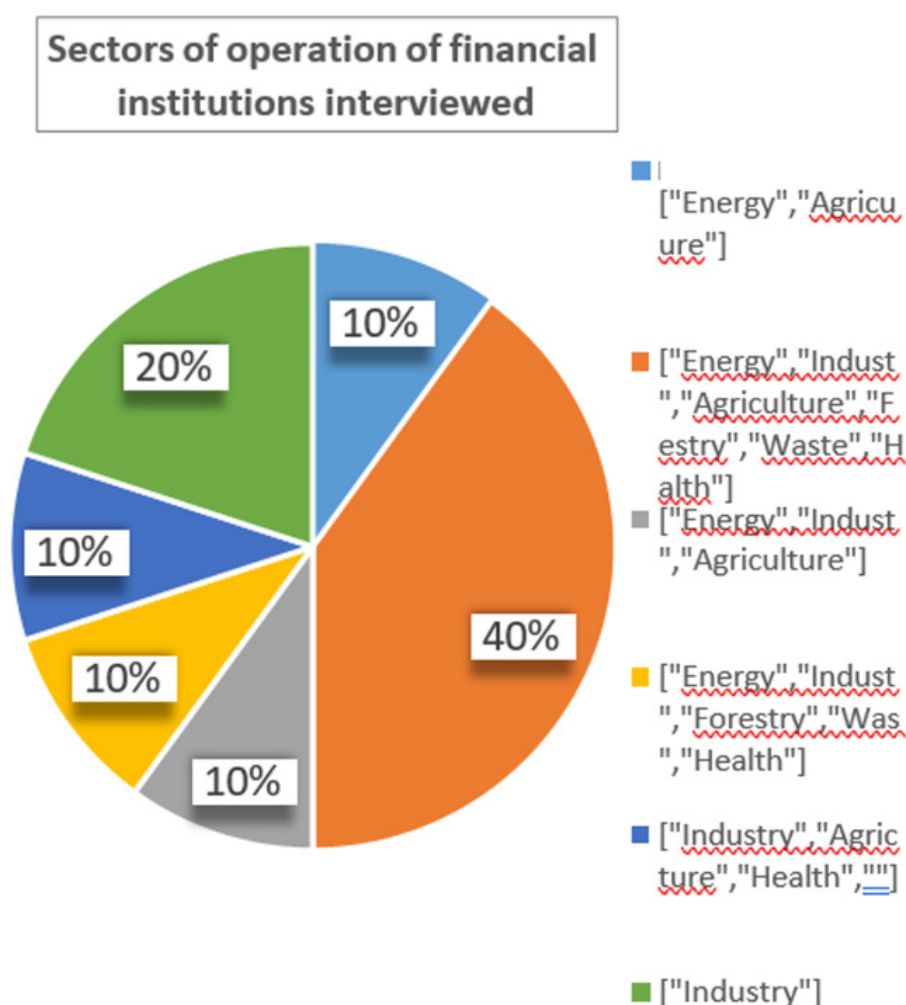
SECTION 3: STUDY FINDINGS

This section presents the results of the assessment of the due diligence of banks and non-banking financial institutions. A total of fifteen (15) banks and non-financial institutions in Accra participated in the study. This section provides a detailed analysis of the information related to key sectors that the institutions are engaged in, their exposure to environmental and social risks, E&S due diligence in lending, environmental and social protection into credit risk assessment regulations, customer loan risks factors, due diligence criteria for assessing projects, mitigation of environmental and social risks, E&S assessment tools and internal capacity, and environmental & Social Management System (ESMS).

3.1. Sectors of Operations by Financial Institutions

Figure 2 indicates the key sectors that financial institutions operate in.

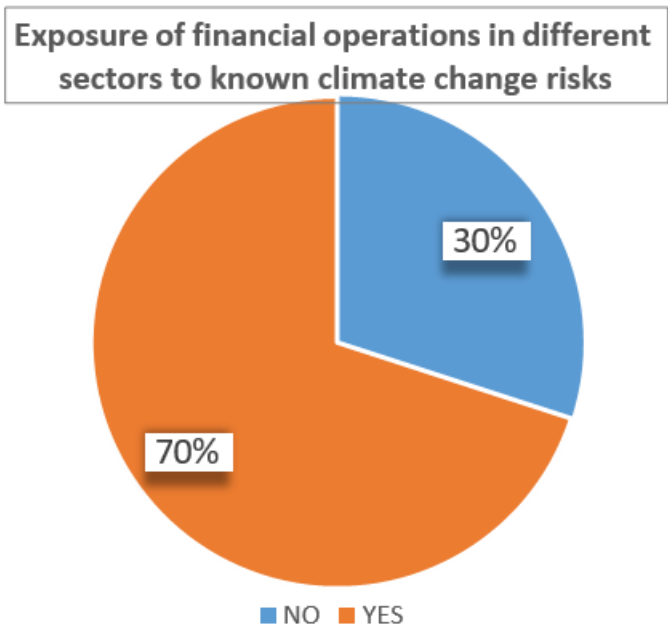
Figure 2. Sectors of operation of financial institutions interview



A significant number of financial institutions interviewed (40 per cent) operate in all the six sectors considered for the assessment (Agriculture Energy, Forestry, Industry, Health, and Waste). Only 20 per cent solely operate in a single sector (industry) with the rest constituting 40 per cent operate between two to five sectors.

Climate change impacts are ubiquitous across several sectors with varying magnitudes. This is confirmed by 70 per cent of financial institutions who said that their operations in the various sectors expose them to known climate risks as shown in Figure 2.

Figure 3. Exposure of financial operations in different sectors to known climate change risks¹



20 per cent of the known climate risks that financial institutions are exposed to relate to CO2 emissions in the extractive oil and gas sector while the rest are associated with drought, excessive rainfall, air pollution, CO2 Emissions in the extractive oil and gas sector drought, excessive rainfall, air pollution, deforestation, extreme heat events as in Figure 3.

¹ **Other Risks Facing Financial and non-financial institutions.**

IPCC, 2014: Physical Risks such as increased frequency and intensity of extreme weather events, sea-level rise, and changes in temperature and precipitation patterns

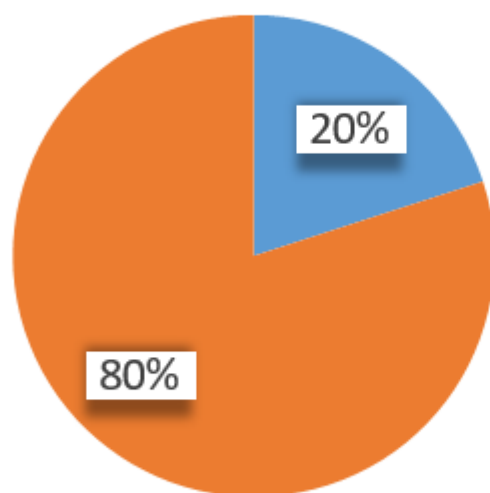
UNEP FI, 2020: Transition Risks because of shift to a low-carbon economy and the implementation of climate-related policies and regulations. These risks include changes in market preferences, technological advancements, and shifts in investor sentiment.

Goulder, 2013: Liability Risks: Liability risks arise from the legal and financial liabilities associated with climate change impacts. For example, companies and institutions may face lawsuits or claims for their contribution to climate change or failure to adapt to its impacts (). These risks can result in significant financial costs and reputational damage.

Dowling et al., 2019: Reputational Risks: Reputational risks arise from public perception and stakeholder expectations regarding an organization's response to climate change. Failure to address climate risks or demonstrate sustainable practices can lead to reputational damage, loss of customers, and negative brand image.

OECD, 2020: Operational Risks such as supply chain disruptions, increased energy costs, damage to infrastructure, and interruptions in business continuity.

Kinds of climate change risks bank are exposed to?



■ CO2 Emissions in the extractive oil and gas sector

■ drought, excessive rainfall, air pollution, deforestation, extreme heat

In terms of exposure to exposure to climate risks, a good number of financial institutions² interviewed (90 percent) believe they are exposed to environmental and social (E&S) risks in the different sectors they operate.

Some of the identified E&S risks they are exposed to include contaminated collateral/security, poor labor practices & human right adherence, reputational or image/brand damage, health and safety, gender inequality, employee health, waste management, low demand on goods and services due to poor economic performance. Environmental

² Other Risks Facing Financial and non-financial institutions.

IPCC, 2014: Physical Risks such as increased frequency and intensity of extreme weather events, sea-level rise, and changes in temperature and precipitation patterns

UNEP FI, 2020: Transition Risks because of shift to a low-carbon economy and the implementation of climate-related policies and regulations. These risks include changes in market preferences, technological advancements, and shifts in investor sentiment.

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risks such as increased carbon emission, water pollution, environmental degradation, and lack of resource efficiency were highlighted by the respondent. As succinctly put by a bank representative,

“The risk of flood is an unforeseen circumstance which can make it difficult for clients to pay their loans as it can result in low demand for goods and services in areas affected”.

Agriculture in Ghana is climate sensitive due to its reliance on rainfall and low penetration of adaptative technologies. 40% of the financial institutions interviewed identified operations in the agriculture sector to be more exposed to climate change and E&S risks. This is followed by exposure to industry (30%), Energy (20%) and Health (10%) (Figure 5).

Figure 5. Exposure of financial institutions to environmental and social (E&S) risks

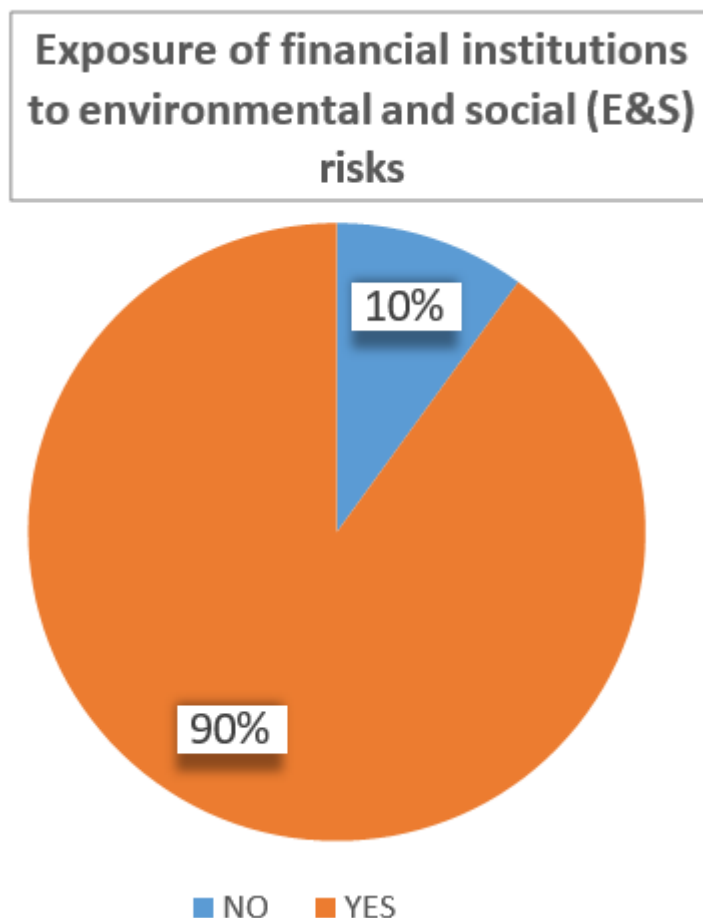
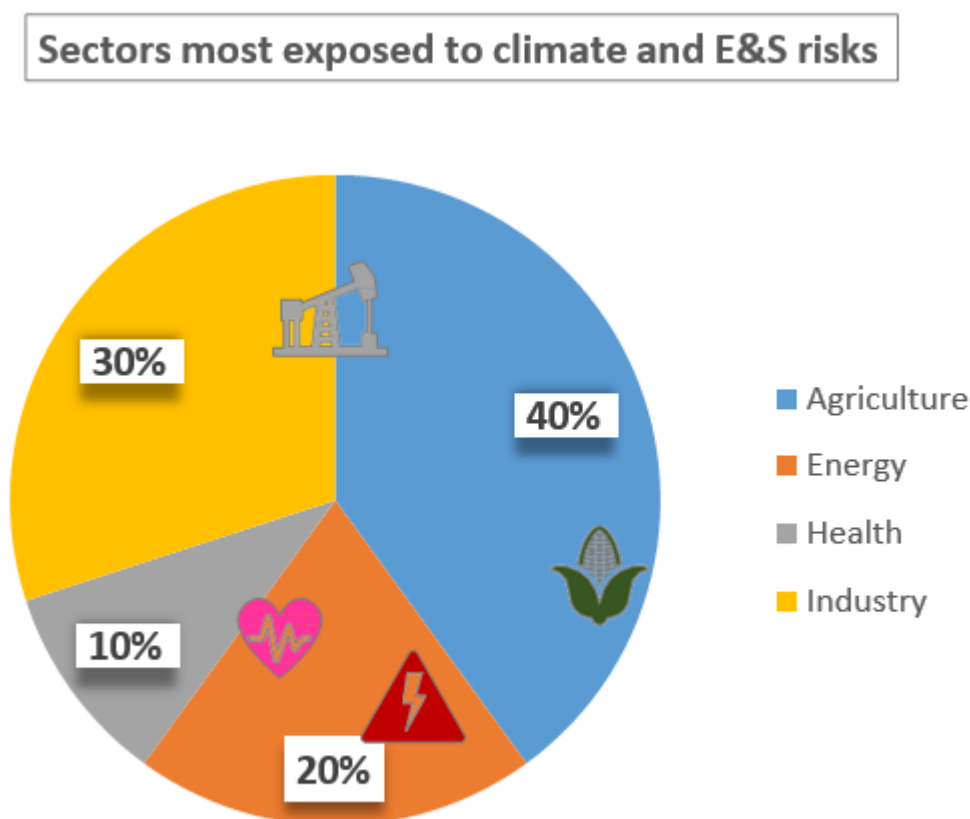
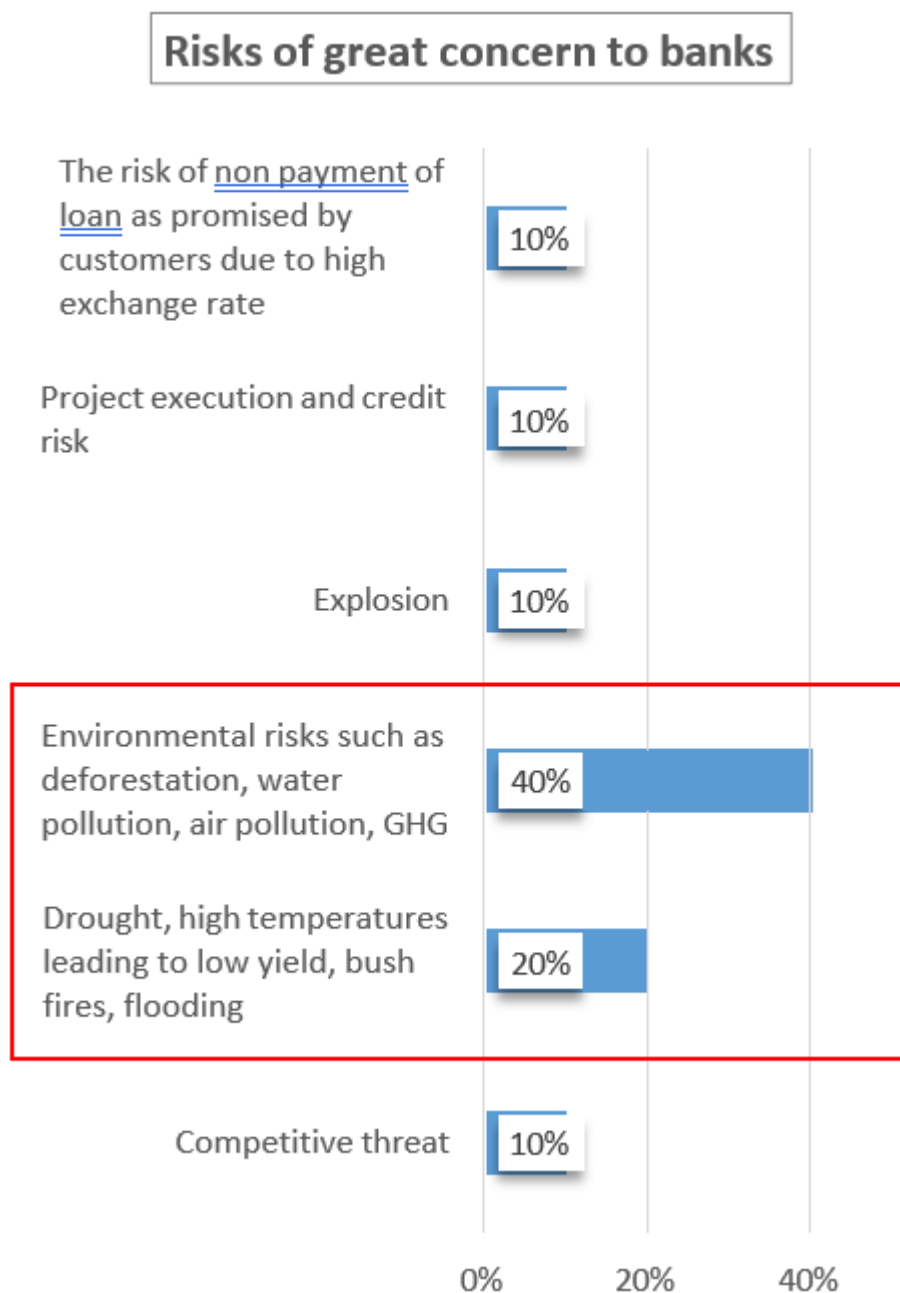


Figure 6. Sectors most exposed to climate and E&S risks.



Because climate and environmental risks constitute the greatest exposures in the sectors in which the financial institutions operate, it is of no surprise that they also emerged as the risks that these institutions are concerned about the most. For example, 40 percent of the financial institutions indicated that environmental risks such as deforestation, water pollution, air pollution, and GHG emissions are major concerns while 20 per cent of banks regard drought, high temperatures leading to low yield, bushfires because of extreme weather condition and floods as a great concern (Figure 7). The remaining 40 per cent of banks are concerned about the competitive threat, explosion, project execution and credit risk, and nonpayment of loans as promised by customers due to high exchange rates.

Figure 7. Risks that the banks are concerned about.



3.2. Managing Climate and E&S Risks

Climate and E&S risks can have far-reaching implications for banks, both in terms of their financial performance and their social responsibility. Banks that are proactive in identifying and managing these risks may be better positioned to thrive in the long term. The result of the survey reveals that Ghanaian financial institutions are currently adopting or have already adopted strategies to manage their exposure to environmental, social, and climate change risks. The measures are different. For example, some banks have developed a framework for identifying, analyzing, evaluating, mitigating, and monitoring the risk involved in their operations while others are integrating/mainstreaming environmental and social risk management systems (ESMS) into their lending operations. Some banks also have complemented these actions with the establishment of governance structures to ensure the smooth implementation of the ESMS.

Other banks have adopted a strategy of not lending to sectors they consider or see to be more at risk.

“By simply not giving out loans to the agriculture sector since the risk there is too high. They don’t have the power to determine whether they will have a good harvest or not. And due to climate change of late, we don’t take such risk.”

Other banks ensure through strict enforcement that projects invested in are implemented as planned on paper to minimize risks. This sometimes requires a visit to the project site.

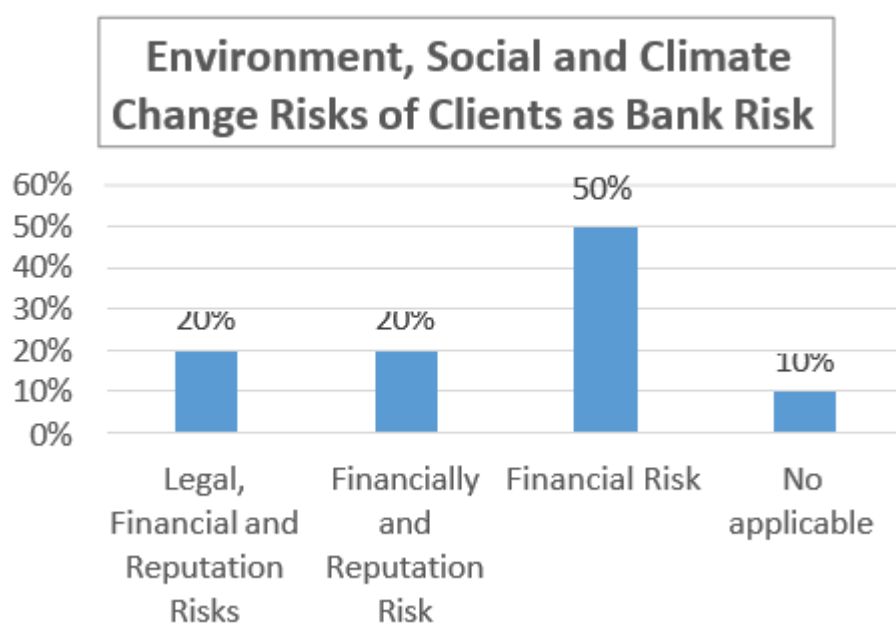
A respondent from one of the banks stated noted that:

“There are sectorial policies guiding E&S appraisals and Client businesses are categorised as such. There is also an internal Exclusion and Identification list which informs the bank on how to enter financing relationships with Clients. An E&S assessment is performed on Client activity and where applicable to the project. Where there are gaps, Client is engaged through a dialogue on necessary actions to be completed within a timeframe.”

3.3. Environment, Social and Climate Change Risks

Environmental, Social and Climate Change risks of the bank’s clients can become legal, financial, and/or reputational risks to the bank. Half of the respondents (50 per cent) believe that the environmental, Social and Climate Change risks of clients only become the bank’s financial risk (Figure 8). 20 per cent believe it is only financial and reputational risk to the bank and not legal risk. Another 20 per cent believe clients’ environmental, social and climate change risks can become the banks’ Legal, Financial and Reputation risks while 10 believe clients’ risks do not apply to the bank.

Figure 8. Environment, Social, and Climate Change Risks of Clients as Bank Risk

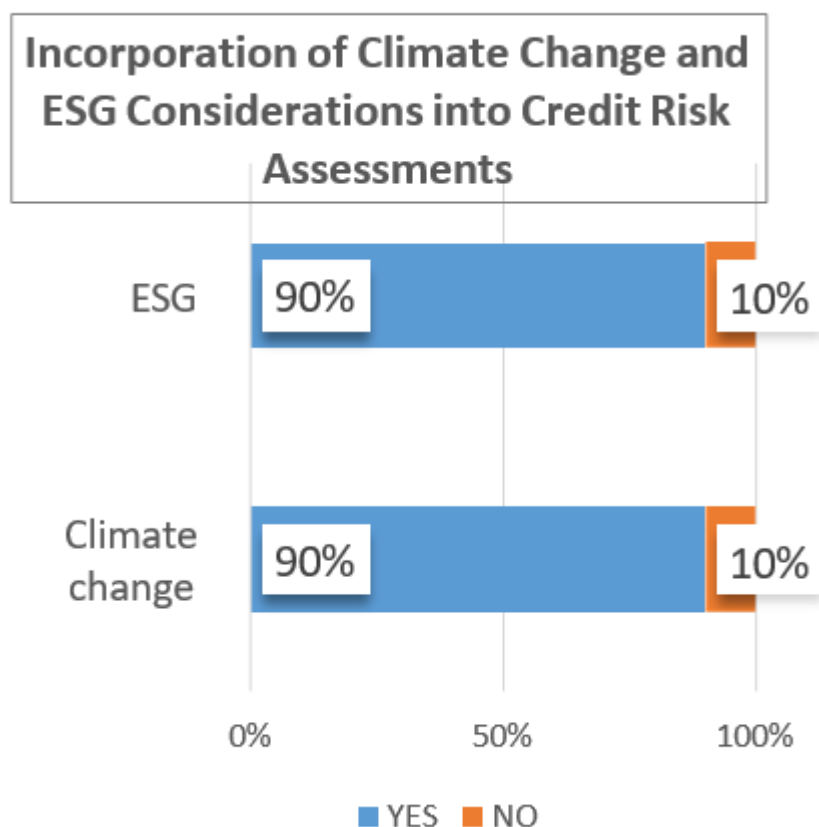


“Environmental, Social and Climate Change risks of Clients are of concern to our bank. The bank understands how E&S risks of Clients could translate into fines, sanctions, protests, bans, etc. These potentially slow down businesses thereby affecting cashflows and Client’s ability to fulfill financial commitments. Again, as a bank that is heavy on reputation, the bank does not want to be associated with negative news, thus ESG risks of Clients are of utmost importance to the bank.”

3.4. Incorporation of into Credit Risk Assessments

The results of the survey show that a significant number of banks are incorporating climate change and ESG considerations into credit risk assessments. 90 per cent of the banks in this survey said they have climate change considerations incorporated while 90 per cent also have ESG considerations incorporated (Figure 9).

Figure 9. Incorporation of climate change and ESG considerations into credit risk assessments



3.5. Risk Factors the Bank Considers in Loan Agreements

The incorporation of climate change and ESG considerations into credit risk assessments must also identify risk factors that form the basis for the loan agreements with the bank's clients. Some of the risk factors that the banks surveyed consider in loan agreements with customers include:

- Regulatory compliance, business position, capital and earnings, risk position, and funding and liquidity
- Market risks, price risks, and foreign exchange risks.
- The capacity of the client to pay back the loan, collateral risk, conditions of the loan and business, and character of the client.
- Default of loan repayment when a loan is due for payment.
- Location of business operation (pollution prevention), certification or legitimacy of the business, proper housekeeping rules in business operation, the integrity of collateral.

3.6. Mitigating Risks in Lending and Other Financial Products and Services

The survey results also revealed that banks are deploying diverse strategies to mitigate prevailing environmental, social and climate change risks in their lending and other financial products and services.

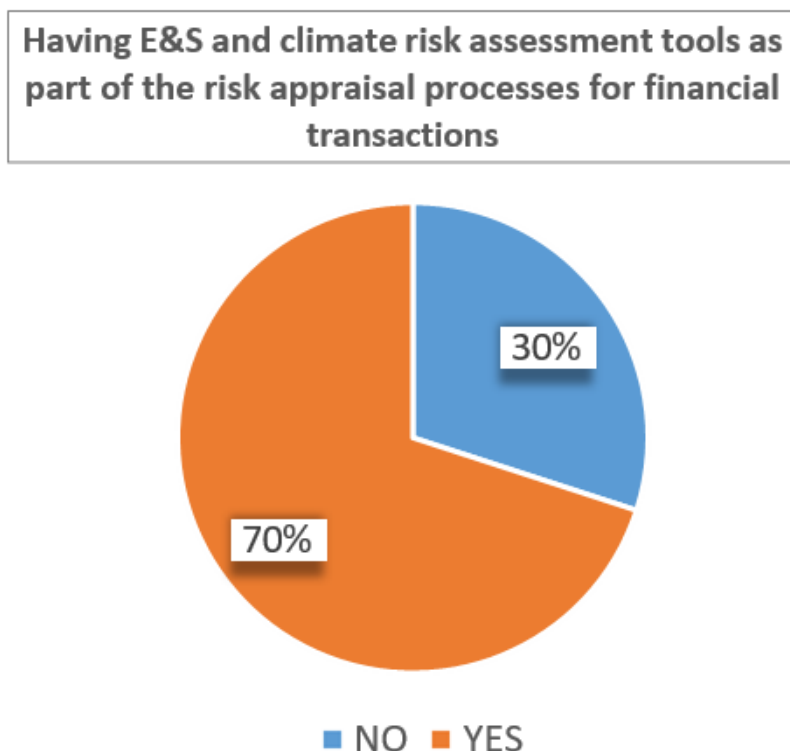
This includes:

- Conducting a proper assessment of the client or business before granting the loan.
- Financial covenants and disbursement conditions after E&S assessment offer the bank the opportunity to mitigate E&S and Climate change risks.
- Assessing clients' capabilities in dealing with identified E&S risks.
- Identifying and dealing with businesses based on their seasons.
- Enshrining mitigation measures in an Environmental Management Plan indicates the action plans to be executed to mitigate the identified risks.
- Conducting periodic site visits for monitoring and ensuring implementation of agreed action plans with clients
- Risk surveys and enforcing recommendations.
- Performing E&S due diligence on the client and put in the agreement E&S covenants' which will be kept under strict monitoring.
- Subjecting any transaction to the Bank's exclusion list (list of transactions that the Bank will not finance), categorize transactions based on their environmental and social risk factors, and conduct E&S due diligence with a tool that is premised on the IFC Performance standards for Environmental and Social Sustainability.
- Requesting for proof of relevant regulatory permits/licenses/certificates and conducting E&S monitoring.

3.7. E&S and climate risk assessment tools

70% of the banks surveyed currently have E&S and climate risk assessment tools as part of the risk appraisal processes for financial transactions.

Figure 10. Having E&S and climate risk assessment tools as part of the risk appraisal processes for financial transactions.



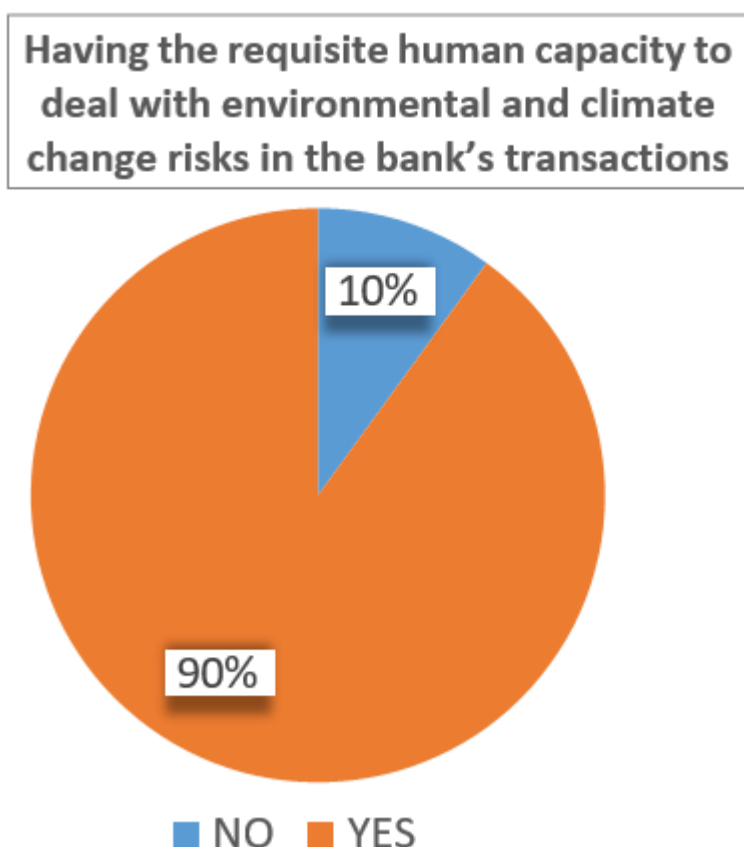
The tools include:

- E&S Identification and Exclusion lists.
- EASI Categorization Tool.
- E&S Due Diligence Checklist.
- Credit Appraisal Memorandum and E&S. clauses for Category A & B transactions.
- Climate vulnerability indicator.
- IFC performance standards.
- Professional risk surveyor to climate-related risks.

Effective and holistic implementation of measures to mitigate E&S and climate risk in banking operations also requires human capital with the prerequisite technical capacity and know-how.

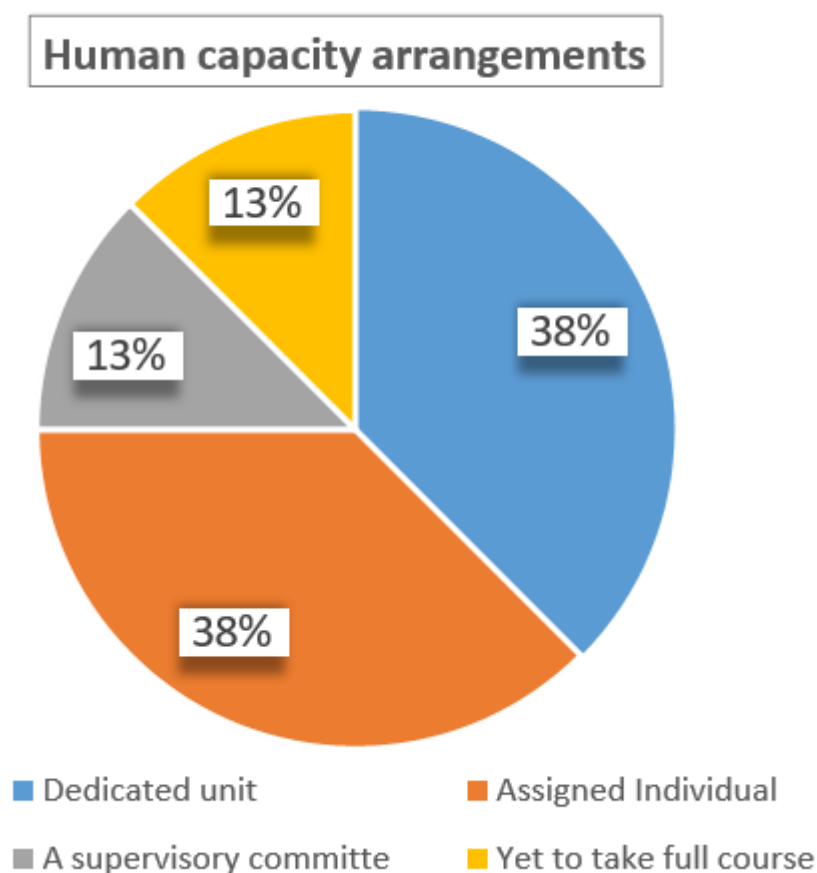
90 per cent of the banks surveyed said they have some level of requisite human capacity to deal with environmental and climate change risks in the bank's transactions (Figure 11).

Figure 11. Having the requisite human capacity to deal with environmental and climate change risks in the bank's transactions.



Human capacity is implemented in the banks in various ways. For instance, 38 per cent of the banks surveyed have dedicated units or departments with staff who have been fully trained to perform the task of ESG assessments or manage environmental, social and climate risks. Likewise, 38 per cent of the banks also have dedicated personnel in the form of a professional risk surveyor or bank staff to take charge of E&S and climate risk matters. The personnel attend local and international training/workshops/seminars to build capacity. Few banks (13 per cent) have a committee to supervise and provide oversight support on E&S and climate risks matters. Also, 13% of the banks are yet to fully implement human capacity building for E&S and climate risks.

Figure 12. Human capacity arrangements in the various banks.



3.8. Adherence to E&S and Climate Risk checks in the loan application and approval processes

Ensuring E&S and climate risk checks along the loan application process is important to reduce the loss to the bank. 80% of the banks surveyed indicated that they have a sort of Environmental & Social Management System (ESMS) Checklists that they factor into their loan application. This includes:

- Capacity, capital, conditions, character,
- E&S Due diligence questionnaire
- E&S Identification list
- E&S Exclusion list
- E&S categorization and impact assessment and mitigation,
- E&S Covenants and Monitoring,
- Sector guidelines
- Aligning credit transactions to the Internal SIC code
- Risk surveyor's report

- Collateral either as cash or property
- Age check (The client Should not be more than 69 years)
- Requiring a guarantors

Also, it is imperative that whatever measures banks put in place to ensure environmental, social and climate risks due diligence in loan application and approval process are followed. The ways in which the banks surveyed are currently implementing this adherence include:

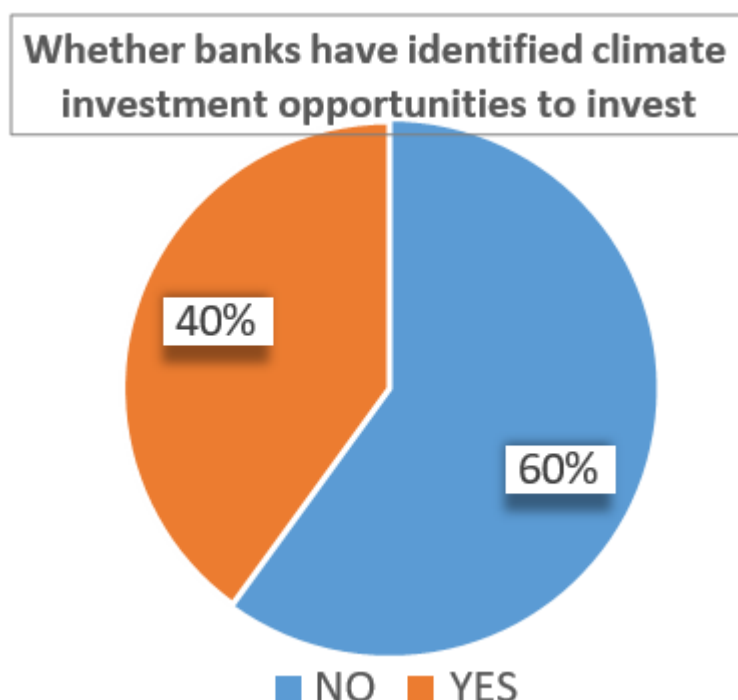
- Site visits for category A and B projects
- E&S physical site visits
- Annual reviews of files
- Periodic reviews of assessments after 3 years.
- Debt to income ratio,
- Environmental, Social and Climate risks due diligence
- Periodic internal and external audit processes
- Regular awareness creation in both internal/external jurisdiction, training of relationship managers and officers, loan sanctions ensure that E&S due diligence comments are mandatory in the credit request & approval template.
- Specialist department
- Dedicated risk managers

3.9. Taking Advantage of Climate Investment Opportunities

Sixty (60) percent of banks have identified climate investment opportunities that their financial institution is willing to invest in or encourage clients to invest in (Figure 13). Such opportunities include Investing in alternative energy and dedicating funding for renewable energy and energy efficient investments.

“Our bank is accredited to the GCF and collaborates with other DFIs to provide funds and guarantees to clients.”

Figure 13. whether banks have identified climate investment opportunities that their financial institution is willing to invest in or encourage clients to invest in.



3.10. Category of Projects or Transactions Necessary for Environmental Social and Climate Risks Considerations

- The banks consider projects in the following Category of projects as necessary for Environmental Social and Climate Risks considerations.
- Agribusiness funding; women beneficiaries; clean agronomy
- Moderate to high-impact category
- Projects considered to be of Positive Impact to the Environment and/or Society.
- Examples are Telecoms, Solar installations, Wastewater Treatment, Biogas projects, and projects to increase sustainable employment opportunities.
- Renewable Energy, Sustainable transportation, Sustainable land use, recycling projects etc.

3.11. Mainstreaming Sustainability Principles into Financial Sectors Operations

The results of the assessment revealed that there has been a growing awareness and commitment among financial institutions in Ghana to incorporate sustainability into their operations and business practices. Environmental Risk Management: Banks are increasingly recognizing the importance of assessing and managing environmental risks associated with their lending and investment activities. This includes attempts to evaluate the environmental impact of projects and industries they finance and implementing measures to mitigate risks. Some financial institutions are investing in internal capacity-building programs to ensure that their employees have the necessary knowledge and skills to implement sustainable banking practices. Overall, the sustainable banking landscape in Ghana is evolving, with an increasing number of banks recognizing the importance of integrating environmental, social, and governance (ESG) considerations into their decision-making processes.

Continued efforts, incentives and award schemes, collaboration, and monitoring are essential to ensure that sustainable banking principles become more widespread and embedded in the practices of banks throughout the country in line with Ghana's NAP framework.

SECTION 4: CERTIFICATION SYSTEM FOR RECOGNISING FINANCIAL INSTITUTIONS

4.1. Certification System for Recognizing Financial Institutions

While some progress has been made by the financial institutions to mainstream sustainability issues into their operations in line with NAP framework, it is important to note that there is still room for improvement in the adoption of sustainable banking principles across all banks in Ghana. Some banks may be more advanced in their sustainability practices, while others are still in the early stages of implementation. Regulatory frameworks, industry standards, and incentives and award schemes to recognize best practices can play a significant role in driving the adoption of sustainable banking principles by providing clear guidelines and incentives for banks to integrate sustainability into their operations in support of Ghana's NAP framework.

4.2. Environmental Sustainability Certification Scheme

This section explores a certification system and criteria, verification mechanisms to certify banks and recognize financial institutions that prioritize sustainability and contribute to the country's NAP and the broader sustainable development goals in Ghana. By implementing a certification system that incorporates these elements as part of the NAP can motivate financial institutions to mainstream sustainability principles into their lending portfolios. The certification system can serve as a valuable tool for stakeholders to make informed decisions and promote the adoption of sustainable banking practices in Ghana.

4.3. Certification Levels

NAP can consider establishing different certification levels to recognize various stages of sustainability performance. For example, there could be different tiers such as **bronze, silver, gold, or platinum based on the banks' sustainability achievements**. This allows for continuous improvement and encourages banks to strive for higher sustainability standards.

4.4. Certification Criteria

A set of seven comprehensive criteria have been proposed to qualify for a certification. These criteria cover various aspects of environmental sustainability which are in line with the NAP.

Table 4.1: Certification Criteria

No	Criteria	Description
1	Environmental Policies and Commitments	Assess the institution's commitment to environmental sustainability, including the existence of a sustainability policy, targets, and strategies.
2	Environmental Risk Management	Evaluate the institution's procedures for identifying, assessing, and managing environmental risks associated with its lending and investment activities
3	Green Financing	Assess the institution's efforts in promoting and financing environmentally friendly projects and initiatives, such as renewable energy, energy efficiency, sustainable agriculture, and green infrastructure.

4	Environmental Governance and Reporting	Evaluate the institution's governance structure for environmental sustainability, including the presence of a dedicated sustainability department, board-level oversight, and transparent reporting practices.
5	Stakeholder Engagement	Consider the institution's engagement with stakeholders, such as clients, employees, and the local community, regarding environmental sustainability.
6	Climate Change Mitigation and Adaptation	Assess the institution's initiatives to mitigate its carbon footprint and promote climate resilience, including the integration of climate considerations into its operations and investments
7	Compliance and Certification	Require compliance with relevant national and international environmental standards and certifications, such as ISO 14001

4.5. Making it Work

Establish Assessment Framework: There is the need to develop an assessment framework that outlines the evaluation process and scoring methodology for each sustainability criterion. Determine the weighting and scoring system for each criterion based on its relative importance. The assessment framework should provide clear guidelines to ensure consistent and standardized evaluations across banks.

Certification Process: Outline the process for institutions to apply for certification, including application submission, documentation requirements, and evaluation procedures. Consider establishing an independent panel of experts or a third-party certification body to conduct the assessment and verification.

Conduct Sustainability Audits: Design a process for conducting sustainability audits of banks seeking certification. This may involve collecting data and evidence from banks, reviewing their policies and practices, conducting site visits, and engaging in stakeholder consultations. The audits should assess the banks' alignment with the defined sustainability criteria and evaluate the effectiveness of their sustainability initiatives.

Verification and Validation: Establish a verification and validation mechanism to ensure the accuracy and credibility of the certification process. This may involve engaging committees or third-party certification bodies to review, verify the data provided by banks, and validate the certification decision. Transparency and independence in the verification process are crucial for maintaining the credibility of the certification system.

Communication and Recognition: Develop a communication strategy to promote the certification system and create awareness among stakeholders, including banks, customers, investors, and the public. Publicly recognize certified sustainable banks through certificates, logos, or a dedicated online platform. This recognition will differentiate certified banks in the market and encourage others to adopt sustainable practices.

Regular Monitoring and Review: Establish mechanisms to monitor and review certified banks' sustainability performance on an ongoing basis. Set requirements for certified banks to report their progress regularly, ensuring they continue to meet the certification criteria. Conduct periodic reviews and reassessments to maintain the integrity and relevance of the certification system.

Capacity Building and Support: Provide capacity building programs and support to banks to help them improve their sustainability practices. This may include training sessions, workshops, and knowledge-sharing platforms to facilitate the adoption of sustainable strategies and initiatives.

Continuous Improvement: Regularly evaluate and refine the certification system to keep up with emerging sustainability trends, regulatory changes, and international best practices. Seek feedback from stakeholders and make necessary adjustments to enhance the effectiveness and credibility of the certification system.

Annual Assessment and Renewal: Specify that the certification is valid for a defined period (e.g., one year) and requires annual assessment for renewal. This ensures that certified institutions maintain their environmental sustainability efforts and continually improve their performance.

Promotion and Awareness: Develop a communication strategy to promote the certification award scheme and raise awareness among financial institutions and the public. Highlight the benefits of certification, such as improved reputation, access to green financing, and market differentiation.

Collaboration and Stakeholder Engagement: Engage relevant stakeholders, including financial institutions, industry associations, regulatory bodies, and environmental organizations, in the design and implementation of the certification scheme. Seek feedback and input from these stakeholders to enhance the scheme's credibility and effectiveness.

Monitoring and Evaluation: Establish a system to monitor and evaluate the effectiveness of the certification scheme over time. Regularly review the criteria, processes, and outcomes to ensure their relevance and alignment with evolving environmental sustainability practices.

SECTION 5: RECOMMENDATIONS AND CONCLUSION

5.1. Recommendations

Based on the findings and outcome of the review of the review of NAP and sustainable banking principles and the assessment of the banks and non-financial institutions, this section proposes recommendations to enhance the contribution of the financial institutions to NAP, build resilient to climate change, promote sustainable development, and facilitate the mobilization of financial resources for climate adaptation and mitigation efforts in Ghana.

Climate Risk Assessment and Management: Financial institutions should be encouraged to incorporate climate risk assessment and management practices into their lending and investment decisions. By considering climate change impacts and vulnerabilities, banks can support projects and businesses that are resilient to climate risks, such as promoting climate-smart agriculture, renewable energy projects, and sustainable infrastructure development.

Financing Climate Adaptation Projects: Banks should prioritize financing climate adaptation projects that align with the NAP framework. This can include supporting initiatives related to water resource management, coastal zone protection, sustainable land use, and climate-resilient livelihoods. Banks can offer tailored financial products and investment options that cater to the specific needs of these projects.

Green Financing: Banks should significantly promote green financing and support renewable energy investments in line with the NAP framework. They can fund renewable energy projects, energy efficiency initiatives, and clean technologies, helping Ghana reduce greenhouse gas emissions and transition towards a low-carbon economy.

Financial inclusion for Climate-Vulnerable Groups: Banks should contribute to NAP priorities by promoting financial inclusion for climate-vulnerable groups. This includes offering financial services to smallholder farmers, women entrepreneurs, and rural communities often most affected by climate change. Banks can support these groups in adopting climate-resilient practices and diversifying their livelihoods by providing access to financial resources.

Stakeholder Engagement and Capacity Building: Banks can actively engage with stakeholders, including government agencies, civil society organizations, and communities, to align their sustainability initiatives with the NAP framework. They can collaborate on climate awareness campaigns, capacity-building programs, and knowledge-sharing platforms to raise awareness about climate change impacts and build capacity for adaptation and mitigation measures.

Sustainable Supply Chain Financing: Banks can encourage sustainable practices across supply chains by offering financing options that reward environmentally and socially responsible suppliers. This can help promote sustainable agricultural practices, responsible mining, and forestry, contributing to NAP priorities related to sustainable land use and natural resource management.

ESG Integration and Reporting: Sustainable banks can integrate environmental, social, and governance (ESG) factors into their operations and reporting practices. They can adopt transparent reporting frameworks that highlight their sustainability performance, including metrics related to climate change, biodiversity conservation, and social impacts. This transparency helps stakeholders assess the banks' alignment with NAP priorities and promotes accountability.

Provide Sustainable Financing Options: Banks should actively explore and provide sustainable financing options, such as green loans, green bonds, and other financial products dedicated to funding environmentally and socially sustainable projects. This will encourage borrowers to prioritize sustainability and helps drive the transition to a more sustainable economy in Ghana.

Offer Financial Incentives: Banks can provide financial incentives, such as preferential interest rates or fee structures, for borrowers who meet specific sustainability criteria. This encourages borrowers to adopt sustainable practices and rewards them for their commitment to sustainability.

Enhance Staff Training and Capacity Building: Although some have demonstrated capacity, they should invest in staff training and capacity building programs to ensure that employees have the necessary knowledge and skills to incorporate sustainability principles into their daily operations. This includes training on sustainable lending practices, ESG risk assessment, and impact measurement.

Collaborate with Stakeholders: Banks should collaborate with relevant stakeholders, including EPA/government agencies, industry associations, NGOs, and local communities, to exchange best practices, share knowledge, and address sustainability challenges collectively. Collaboration helps build a stronger and more sustainable financial sector.

Implement Sustainability Reporting: Financial institutions should publish regular sustainability reports that disclose their environmental and social performance, showcasing their progress in mainstreaming sustainability principles. Transparent reporting enhances accountability and helps build trust with stakeholders.

Engage Customers and Raise Awareness: Financial institutions should actively engage with their customers to raise awareness about the importance of sustainability and encourage them to adopt sustainable practices. This can be done through educational campaigns, workshops, and tailored sustainability advisory services.

Align with International Best Practices: Financial institutions in Ghana should align their sustainability practices with international best practices and guidelines, such as the Equator Principles, United Nations Principles for Responsible Banking, and Global Reporting Initiative (GRI) standards.

5.2. Conclusion

The National Adaptation Planning (NAP) framework in Ghana focuses on building resilience to climate change impacts and promoting sustainable development. It serves as a blueprint for building resilience to climate change impacts and fostering sustainable development. The NAP framework recognizes the critical role of the private sector and financial institutions in ensuring effective climate change adaptation financing, planning and implementation in Ghana. The NAP provides a strategic framework for addressing climate change and promoting adaptation measures, while sustainable banking principles guide financial institutions in incorporating environmental, social, and governance (ESG) considerations into their lending activities and operations. Ghana's sustainable banking principles are aligned with this vision which seeks to encourage financial institutions to integrate sustainability criteria into their lending decisions, risk management processes, and reporting practices.

The NAP and sustainable banking principles could play a vital role in driving the integration of sustainability into the financial sector in Ghana. The assessment has revealed a growing awareness and commitment among financial institutions in Ghana to incorporate sustainability into their operations and business practices through environmental risk management. Banks are increasingly recognizing the importance of assessing and managing environmental risks associated with their lending and investment activities. This includes attempts to evaluate the environmental impact of projects and industries they finance and implementing measures to mitigate risks. Some financial institutions are investing in internal capacity building programs to ensure that

their employees have the necessary knowledge and skills to implement sustainable banking practices. By embracing sustainable banking principles, financial institutions in Ghana can contribute to the achievement of national climate and sustainability goals within the NAP framework. They can promote green financing options, support sustainable projects and industries, and effectively manage environmental and social risks associated with their lending portfolios. This not only helps mitigate negative impacts on the environment and communities but also creates opportunities for sustainable economic growth and development. Continued efforts, incentives and award schemes, collaboration, and monitoring are essential to ensure that sustainable banking principles become more widespread and embedded in the practices of banks throughout the country in line with Ghana's NAP framework. The NAP process should encourage dialogue between financial institutions, regulators, industry associations, and civil society organizations, creating a platform for knowledge sharing and awarding best practices and fostering collective action towards national adaptation and sustainable development.

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