

Interview SFRF: Nuru Mugambi

Melina London: Good morning everyone and welcome to our new interview for the Sustainable Finance Research Forum of the European Commission. My name is Melina London and I am an economist working on sustainable finance at the Joint Research Centre of the European Commission. Today as part of our interview series of scholars and practitioners in the field of sustainable finance, I'm very happy to welcome Nuru Mugambi. Good afternoon, Nuru. Thank you for joining us.

Nuru Mugambi: Thank you so much.

Melina London: Nuru, you are part of the Sustainable Banking and Finance Network, working as an advisor on capacity building and inclusive sustainable finance. You are a champion for sustainable finance, gender diversity, digital accessibility and consumer protection. You serve, in the SBFN you really focus on supporting members on policy and capacity building. And you have advised and trained policy makers in industry associations in Kenya, Liberia, Ghana, Tanzania, Rwanda, and Eastern Caribbean, among other countries. So quite a lot of experience here, as we can see. Your work includes establishing the Sustainable Finance Initiative for the Kenya Bankers Association, where you served as director for 10 years, and also participated to designing and curating the Kenya Green Bond Program. And this program saw the country introduce tax incentives on green bond, but also Arkon Holding issuing the first green bond in East and Central Africa. So quite a landmark, I would say. And maybe as a last way to introduce you back, when you also work on SME development, given that you have created a digital learning based programme that reach a lot of entrepreneurs and unlocked millions in microloans. So many thanks, Nuru, for taking the time to join us today.

Nuru Mugambi: Thank you so much. Really happy to be here. Thanks, Melina.

Melina London: What we will try to discuss is sustainable finance in a larger context, so going beyond EU borders, because we know that it's a global issue. So we will touch on the work of the Sustainable Banking and Finance Network, but also the concept of inclusive green finance and I would say your experience in the green finance world, if that's okay with you. So maybe let me start with the first question. Could you tell us more on what is the SBFN and what is the value added of the Network in your view?

Nuru Mugambi: Thank you. Thank you for that and thanks for the opportunity to share about SBFN. So SBFN was started in 2012. About 10 financial sector regulators asked IFC, which is part of the World Bank, to create a framework or a platform for them to come together to share knowledge and information around sustainable finance. Now, 2012 seems like a long way away, but it's not that far away. It was at a point in time where emerging markets policymakers really were trying to catch up with EU G20 markets and really just wanted to understand what are those policy measures that need to be integrated in their local context. So, the network was designed specifically from the start to look at the emerging markets and to create this voluntary community for financial sector regulators, central banks, ministries of finance, we also have members that are from ministries of environment, and then industry associations. Again, specifically from the emerging markets that wanted to come together, had common goals of really improving their risk management and governance, and at the same time driving capital flows towards positive environmental and social outcomes. So that was really the goal of the network. So over time, it's grown from the 10 members. Right now, SBFN has 83 members that cover 65 emerging market countries. It really is a big network. It comprises about, or

covers, or represents, I should say, about 86% of total banking assets in the emerging markets. So the majority of the emerging markets is represented by the network. I really do think it's probably one of the largest and longest standing platforms for policy makers of its kind in the emerging markets. With different activities, some of the more popular ones are the peer exchanges amongst members because now we have that critical mass. We help organize study tours. We have a capacity-building program that is really needs-based and also guided by trends. So we have a capacity-building program. We also help with technical assistance. So when members are developing their various policy frameworks, they ask the secretariat to be that sounding board, also to help identify which other countries might be looking at or have already advanced in certain approaches. So we help give that review of frameworks. So we do that and then we also partner with IFC and the World Bank and other experts to support those policy framework development. I think one of the really interesting aspects of SBFN is that it's member-led. So members come together through committees that we call working groups to share knowledge and share technical information on how they approach the design of certain policies, the measurement and evaluation of certain policies. And I think that to me is one of the really – what that special source of SBFN is really that member-led approach and then also the analytical focus. So really I think you could consider SBFN like a knowledge community. We publish a lot of reports and publications. We have a very deep measurement methodology that covers more than 90 indicators on sustainable finance. It is that methodology that members use to understand where they are. So, really, that peer benchmarking, and they also use it to plan for their agendas, right? So, their sustainable finance agendas, yeah. So, that's really, in a nutshell, SBFN.

Melina London: Thank you very much for the details. I think it's very interesting because the sustainable finance is a growing field so we need to collaborate and as a researcher I can only promote collaboration I would say, so very interesting to know that exists.

Nuru Mugambi: It's true and then also I think since you know you as an economist you know these type of networks, the other value proposition of these types of networks is the aspect of policy diffusion, right? So we find that when certain countries adopt certain measures, within the network other countries are aware of these measures and then they pay attention to how these measures are implemented, those feedback loops, right, to see the effectiveness, both the technical feasibility and then also that political viability, right? So these type of networks help with rapid diffusion of policies. In fact, one of the numbers we like to talk about is how, since 2015, SBFN members have led in the development of more than 200 national frameworks. That's a lot of frameworks. So the reason why we were able to get to that number of 200 frameworks in such a short period of time is the policy diffusion aspect that these type of networks have.

Melina London: So it's really like one member is going to propose something, then, like, the other will see what will work, and they can exchange. That's very interesting. Learning by doing.

Nuru Mugambi: Learning by doing. Yeah.

Melina London: Okay. Well, thanks for this introduction. Maybe you could give us also a bit more details on like what is inclusive green finance and how you like fit this question of inclusivity in the frameworks you, in the work you conduct with SBFN?

Nuru Mugambi: Sure. Inclusive green finances I think is an area of growing interest I could say. In the past probably about five years, policymakers have really focused on to leverage the financial sector to address the existential risk of climate change. We are all familiar with the need for green finance and climate finance, with the financing gap and the challenges. We know how climate creates a risk from a financial stability perspective. So, but what we find is a lot of the activity around climate finance and green finance, both on the risk side and also on the finance and investment side, really has been at that macro level, right? So, really looking at public infrastructure, looking at commercial and industrial levels with probably less of a focus on the micro segment. And within that segment, we're looking at households, we're looking at micro enterprises, and of course, the informal economy. So that's the trend that has been going in the green finance space.

At the same time, on the financial inclusion space, increasingly countries are developing their national financial inclusion strategies. But often these two domains don't come together, there's no confluence. They're not interacting with each other. They're being approached as separate policy frameworks. What inclusive green finance tries to do is really look at that nexus between climate and environmental risk management, green finance flows, and financial inclusion policy. And we know that financial inclusion looks at access, but it's not just access, it's really looking at the suitability of those products, right? So the affordability and suitability of those products. So when you're looking at green finance with an inclusion lens, you then really want to look at how are some of those green and climate-related policies impacting on that micro level. And lots of studies have been done, including by CGAP, that have identified the fact that a lot of climate policies are actually exacerbating inclusion. They're creating exclusion, financial exclusion. So Inclusive Green Finance really tries to look at that, that nexus from a policy perspective. So really just trying to see how can we design, how through policy we can encourage the development and design of products, financial products that are cost-effective, that are accessible, that help empower individuals, empower enterprises to navigate those economic challenges, those financial and physical risks that climate presents, but at the same time also sees the market, right? So I think we're seeing almost like a net zero market forming. And in many cases, low-income countries, conflict-affected countries, small island countries, might not be able to compete in this new net zero global market that's forming. Right? So how do we, through access and product design, supported by effective policy in that enabling environment, how do we help improve that environmental, the climate resilience, the financial resilience, and competitiveness? So really that's what we're looking at. Yeah.

Melina London: I believe it's very important because what you say that, okay, those countries are maybe not the most competitive, but at the same time, it's where most of the investments are needed, where you have like the biggest investment gap. So I think it's very interesting to like change the focus and try to see what is starting from the needs, what you were saying, like starting from also the micro level. That's something that has changed also in the economic field, I would say, trying to go more from the micro to macro.

Nuru Mugambi: Yeah, I think it also is looking at both sides, not just the supply side of finance, because I think for a long time, I think green finance has been driven by the supply side of finance, right? So really understanding the demand side need, I think. So when we're looking at those marketing, those credit enhancements and products, you know, pitching it at the public infrastructure level, how do we then have a line of sight all the way down to the household level in terms of how that finance flow will impact. So really understanding that whole value and supply chain that is opened up through green finance and sustainable finance, I think that's really what we're looking at. When I was in Kenya, we were looking at – we did

a really interesting study, the National Treasury supported by private sector and the Bankers Association looked at what are those climate finance flows? And indeed, a lot of the climate finance flows were sovereign. So it was very much public sector flows into Kenya, DFI and sovereign flows into Kenya. And most of it was going to the energy sector. Because I think if you look at it, there's a lot of efficiency. There's need, of course, but there's also a lot of efficiency in some of those bigger transactions, right? It's very expensive. Microfinance is a very expensive business. So you can understand why, originally, green finance was really being propelled by those larger transactions. But now we're saying we're really trying to be inclusive, really address stability right throughout the economic system. I think you also have to look at the household level. And there are many examples. I think Sri Lanka is a good example of a country that has really tried to integrate inclusion and sustainable finance. So they're going a little bit beyond inclusive green finance to inclusive sustainable finance, really looking at insurance solutions and tying those insurance solutions not only to environmental risks but also social risks. And I think that's the approach that we want to go with, especially because it's responsive to the needs in the emerging markets. And another example I can give is Azerbaijan. I like this example because what they then did is they expanded the definition of social. And their definition of social includes not only gender and SME, but it also includes age, it includes persons with disabilities, really just trying to bring those concepts, the definitions and concepts of inclusion into the realm or into the policy domain of sustainable finance. So yeah, so we see lots of really good examples within SBFN.

Melina London: That's really interesting and like trying to take into account all the complexity of the interaction, gender, ethnicity, like what you were saying, like age and also handicap are often forgotten when we think about it.

Nuru Mugambi: A lot, yeah.

Melina London: Comprehensive, I would say. I think I could hear you discussing a lot of examples for a long time, but given that we are constrained with time, maybe we could go to my next question. Based on your examples, what are the challenges and what are the solutions to implement with inclusive green finance? You said like trying to cover as much complexity as you can, but maybe in terms of specific example of how does this translate into financial instruments or financial solutions?

Nuru Mugambi: I think probably one of the challenges is this aspect of limited time, limited resources, and there are just so many policy alternatives, right? So which policy measure is the most efficient, most feasible technically, and most viable politically in my country's context. I think that's probably one of the challenges that we find our members facing. And that's why I think this, like you said, the learning by doing, having a little bit of flexibility to improve and iterate as you go along, I think, helps. And then also having that sounding board through the knowledge community approach I think is helpful. So I think getting that assistance of analyzing various policy measures in your context, really learning through these peer exchanges and knowledge shares, what are those first hand experiences and actually seeing the outcomes, I think that helps address some of the challenges. SBFN did a report with the UN Secretary General's Special Advocate for Inclusive Finance on inclusive green finance. So the report was on IGF. And really, it was just talking about and highlighting the need for integrating, not keeping those two policy domains separate, right, the green finance domain and financial inclusion domain separate. So bringing some confluence, bringing them together. And then also the need for partnership, like we've talked about, right? So how do we make sure that policymakers collaborate with the financial sector and the private sector and also civil

society? Because of, you know, when you talk about inclusion, you do have to include civil society. So you can make sure you're managing those unintended consequences of climate action and climate policy. So I think this aspect of integrating both inclusion and green and social and, sorry, social is already inherently inclusive, right? So integrating inclusion aspects with your green and environmental finance and also those fiscal measures that you have that touch on the economy. And then number two, really just trying to be aware of those unintended consequences of certain climate policies. I think it's important. And then I think number three is that collaborative approach. So public sector with private sector, financial sector. And then also within public sector, we find there's silos within government. So just having that whole of government approach, I think, is important.

Melina London: I think this question of silos and making work everyone together, I think it's definitely one of the big value added of the network, because often you lose a big picture, so you need someone to tell you, like, no, no, start all over, around the table, and let's discuss this and how we can address it. And do you maybe like coming back to something you said earlier, would you because you mentioned that sometime when we don't take into account these inclusive needs, there might be exclusion through green finance instruments. Is one of the solutions to raise financial awareness among the population or among like the domestic actors? Is it something that is taken into account by the SBFN framework or how do you address this question?

Nuru Mugambi: So the different examples were seen in countries like Indonesia where policymakers work with public sector, sorry, private sector, really just to raise that awareness. So, for example, I think TCFD is a good example of a framework that helps raise that awareness, right? So, as financial institutions are implemented, regulators are implementing this guideline, financial institutions are now having to educate and inform their clients really about scope one, scope two, scope three, because ultimately these financial institutions have to in turn report to their regulators. So I think certain policies help with raising awareness. Other policies help with raising advocating for that behavior change. So yeah, I think definitely awareness raising is an important component.

Melina London: Okay, many thanks for this. Well, as a last question, if I may, maybe like going a bit more personal on your own background. I would also be very interested in hearing about your experience as a woman in sustainable finance, because you worked in a lot of different institutions, different networks, and how do you see that there is this question of women's participation in such a green finance and sustainable finance environment?

Nuru Mugambi: It's an interesting question. Yes, so first of all, being a woman in finance is hard. So I think we know. I think we know the numbers. We know as much as our male counterparts feel that they're being edged out of the industry, the numbers don't lie. We know that women like Deloitte, I was just looking at a report by Deloitte. It was talking about women in the financial sector globally on average, women just account for maybe 15 to 20% of C-suite, right? So we need to get, move that 15 to 20% to 50%. So gentlemen need to get a little bit more comfortable with this language of diversity because we have not reached there yet. I'm from Kenya in Africa, you know, we see a lot of institutions trying to be a little bit more intentional in promoting gender diversity. And typically we find that diversity is almost, there is parity almost up until, you know, a little bit below management level. But once you get to management level and above, diversity starts not looking very good. A lot of it is driven by social norms. For example, in Africa, in fact, I was doing some work in Rwanda and Access to Finance Rwanda had a very interesting report around social norms and how women and men

see women and money, and this idea that in most cases, you should defer to the male when it comes to money-related decisions. That has been the traditional social norm. So you can understand why in certain markets, like in on the continent, why the numbers are the way they are, but it's important to start raising awareness of the fact that you have a lot of very well-qualified and highly experienced emergent women leaders in the financial sector. So I just wanted to put that out there. So I'm very passionate about this.

So how has it been being a woman in sustainable finance? I think I can say it's been really interesting. I think women naturally gravitate to this space because inherently we kind of identify with equity, and we identify with these challenges and the outcomes that sustainable finance ideally should be seeking to solve and realize. So I think you find probably more women in the sustainable finance space or increasingly more women. What I challenge is the color, right? So sustainable finance is predominantly a Caucasian domain. So we need more African faces, more Asian faces, more Latinx faces, really at the policy level, at the global policy level. I think Europe has really dominated, not to take anything away from the EU, but Europe has really dominated the sustainable finance space. And I think we need a little bit more diversity because, and I'm sure as you've seen coming out of COP28, there are a lot of challenges that are unique to some of our other markets and other regions. So I think I find diversity has been a challenge in the sustainable finance space as a woman. But obviously I can't just sit and complain about it. What am I doing about it? I started a platform called Angaza Forum. And what we're trying to do is really start spotlighting the women from Africa who are really driving sustainable finance and responsible investment and really demonstrating leadership, both at the institutional and industry level. So I think the more we start ventilating stories of people who are really impacting on this space, the more we can address this issue of diversity.

Melina London: I think that definitely resonates with what we discussed during one of our events, the event we did last spring on sustainable finance in low and middle income countries that one size does not fit all. We need diversity and we need diversity of solutions to address a diversity of issues. So that's really interesting and I guess also like formal learning by doing, this works for member states, but also sharing like experience among women. And for this, I believe your network is also very, very interesting.

Nuru Mugambi: So many things. Yeah, thank you. Thank you.

Melina London: Now, I don't know if you have anything to add to complement. I don't know.

Nuru Mugambi: Well, really, it's just to say that really this issue of inclusion, I think increasingly is going to be a theme in the sustainable finance policy domain. And of course, we've learned from COVID how quickly a social issue can become an economic issue and really create that instability economy-wide. It's an important topic, it's not a fad, but I think it's going to keep deepening from a policy perspective.

Melina London: And we need to keep that in mind, when providing recommendations for policymaking, always keep this diversity and inclusivity in mind, I guess.

Nuru Mugambi: Absolutely, absolutely.

Melina London: Very, very insightful answers. answers and like thank you very much for sharing your experience. Well I would call it to an end, maybe leave you one or two words if you want to conclude.

Nuru Mugambi: I just need to promote. Let me promote. As SBFN we have a website, sbfnnetwork.org, so really just to invite people to visit our website, follow us on LinkedIn. We're soon going to be publishing our most recent data. SBFN is known for its global report, so we're going to be soon publishing our 2023 data. It's going to be a real-time online portal where you can look at the various countries and really understand the measures that they have and have a look at their profiles. So I invite everyone to follow us on LinkedIn and check out our website. Thank you.

Melina London: I definitely think that's a page and that's something we need to keep on our radar and like follow your work and your studies. And as you said, you have really comprehensive work, so it would be great for us to follow. Many thanks for this. I can just invite all of our listeners to stay tuned for the next interview in our series coming in January. Do not hesitate also promoting to follow our mailing list to receive more news and more events. Many thanks, everyone. Many thanks, Nuru.