THE SUSTAINABLE FINANCE POLICY NAVIGATOR

A diagnostic tool for sustainable finance policy reforms

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Frankfurt School

SUSTAINABLE FINANCE POLICY NAVIGATOR

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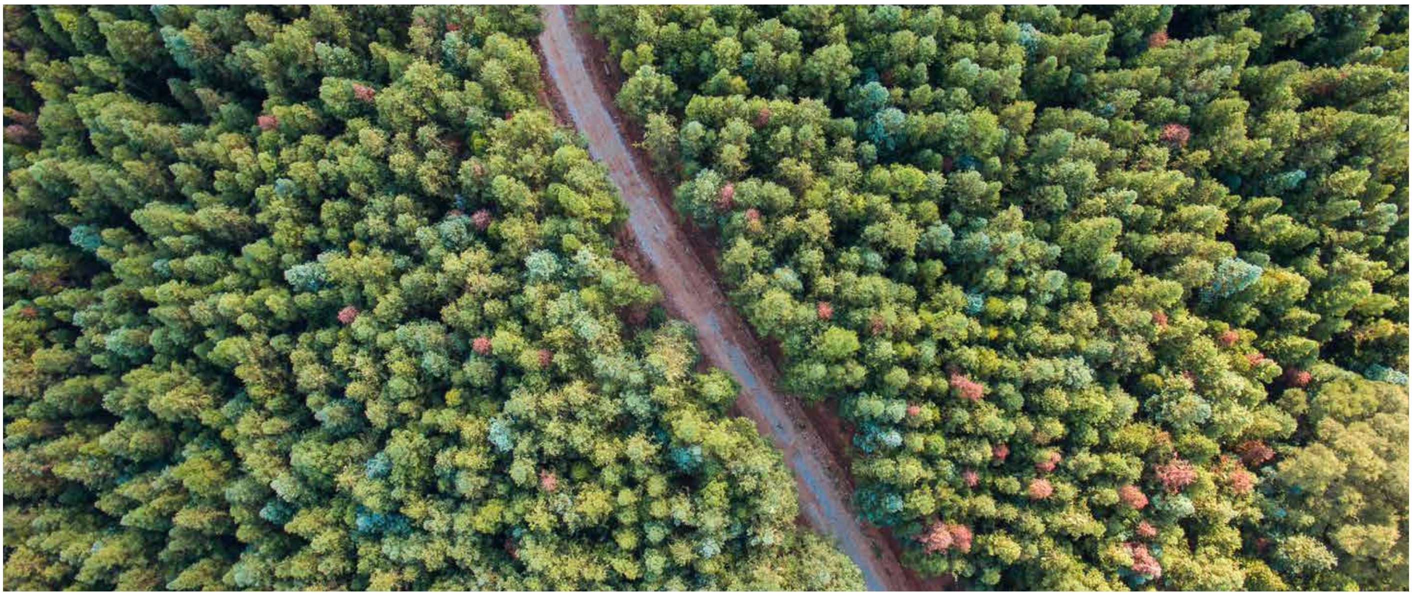
ABBREVIATIONS

3fP-Tracker	Finance Fit for Paris Tracker
A4S	Accounting for Sustainability
AMMC	Moroccan Capital Market Authority
BIS	Bank for International Settlements
BSA	Banking Supervisory Authority
CBI	Climate Bonds Initiative
CCFV	Green Finance Advisory Board Mexico (El Consejo Consultivo de Finanzas Verdes)
CDSB	Climate Disclosure Standards Board
CET1	Common Equity Tier 1
COP	Conference of the Parties
DNB	Dutch Central Bank
EC	European Commission
EP	Equator Principles
ESG	Environmental, Social and Governance
EU	European Union
FC4S	International Network of Financial Centres for Sustainability
GBP	Green Bond Principles
GBPK	Green Bond Programme – Kenya
GDP	Gross Domestic Product
GFMD	Green Finance Measures Database
GFSG	Green Finance Study Group
GGGI	Global Green Growth Institute
GGKP	Green Growth Knowledge Platform
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Agency)
GLP	Green Loan Principles
GRI	Global Reporting Initiative
ICMA	International Capital Market Association
ICT	Information and Communication Technologies
IFC	International Finance Corporation
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPSF	International Platform on Sustainable Finance
LGFA	Local Government Funding Agencies
NDC	Nationally Determined Contribution
NGFS	Network of Central Banks and Supervisors for Greening the Financial System
NGO	Non-governmental Organization
NSE	Nairobi Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PRB	Principles for Responsible Banking
PRI	Principles for Responsible Investment
PSI	Principles for Responsible Insurance
SASB	Sustainability Accounting Standards Board
SBG	Sustainability Bond Guidelines
SBN	Sustainable Banking Network
SBP	Social Bond Principles
SDGs	Sustainable Development Goals
SF	Sustainable Finance
TCFD	Task Force on Climate-Related Financial Disclosures
TEG	EU Technical Expert Group on Sustainable Finance
UN	United Nations
UNEP	United Nations Environmental Programme
UNEP FI	United Nations Environmental Programme Finance Initiative
UNIDO	United Nations Industrial Development Organization
USD	US Dollar
WMO	World Meteorological Organization
WWF	World Wide Fund for Nature



EXECUTIVE SUMMARY

Sustainable finance matters.
For policymakers worldwide, sustainable finance is vital to mobilizing and channeling the immense financing and investment needed to achieve the United Nations Sustainable Development Goals (SDGs) and the targets of the Paris Climate Agreement. These international commitments, agreed by governments around the world, require nothing less than a paradigm shift in how economies and financial systems operate, and how they create value for society within the ecological boundaries of the planet.

In the financial sector, this shift is already underway.
Governments, financial regulators, and market players around the world have begun to integrate environmental and social sustainability in financial market policies, processes, and practices. A key driver for change is a growing recognition that environmental degradation, climate change, and social pressures pose significant risks for socio-economic and financial systems. At the same time, the transition to low-carbon, resource-efficient, and socially inclusive economies offers enormous investment opportunities, from renewable energy and sustainable food systems to good health and well-being. Sustainable finance initiatives have been gaining traction globally with market innovations like sustainable finance taxonomies, new financial products and services, enhanced risk management practices, and greater information disclosure.[1] However, there are challenges on the path to sustainability, and the route is not always clear.

GIZ and the Frankfurt School have developed a diagnostic tool to help countries navigate this transition.
The Sustainable Finance Policy Navigator, or SF Navigator, helps policymakers and other public actors conduct comprehensive country assessments of financial policies and regulations, and provides a menu of actions to advance sustainable finance at the national level. A key purpose of the SF Navigator is to support public actors in their assessment, agenda, and target setting as a basis for developing a sustainable finance strategy, action plan, or roadmap.

The SF Navigator can be applied flexibly.
Drawing on international frameworks, standards and good practices, the SF Navigator enables public institutions to take stock of the legislative and regulatory frameworks governing their country's financial system; identify key sustainability gaps, constraints and opportunities; and prepare policy and regulatory reforms tailored to their national context. The assessment could cover a country's entire financial sector, or focus on sub-sectors like banking and capital markets. The tool can also be tailored to specific actors who want to explore concrete policy options or engage in internal strategic planning.

Mainstreaming sustainability in the financial sector is a complex challenge requiring political leadership and the concerted efforts of public and private sector stakeholders.
The financial sector plays a critical role in channeling capital to finance this transition and taking measures to protect and generate value in the longer term. Public and private actors alike need to develop new knowledge, skills, and tools to shift to a sustainable financial system. The SF Navigator aims to reduce complexity and provide a comprehensive and structured framework for public institutions to act. Formulating sustainable finance goals and actions based on the SF Navigator's menu of actions and process-related guidance can help countries build a sustainable financial system that supports the transition to a sustainable economy.

1. INTRODUCTION

Sustainable finance is about setting the course for "the important contribution direct investment (…) can make to sustainable development" (Addis Ababa Action Agenda) and "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (Paris Agreement Article 2.1.c).

For every country, there is a window of opportunity to design policies that promote sustainable financial markets and build economies that are resilient to environmental degradation, climate change, and social pressures. Worldwide, there are growing efforts to integrate environmental and social sustainability in financial market policies, processes and practices, from green bonds to national sustainable finance strategies and action plans.[2] However, building a sustainable financial system requires a comprehensive, systematic, and coordinated approach that governments, financial regulators, supervisors, and market players around the world are finding challenging to adopt and implement.

The Sustainable Finance Policy Navigator (SF Navigator) is a diagnostic tool developed by GIZ and the Frankfurt School to guide public and regulatory reforms towards a sustainable financial system that supports the transition to sustainable economies.

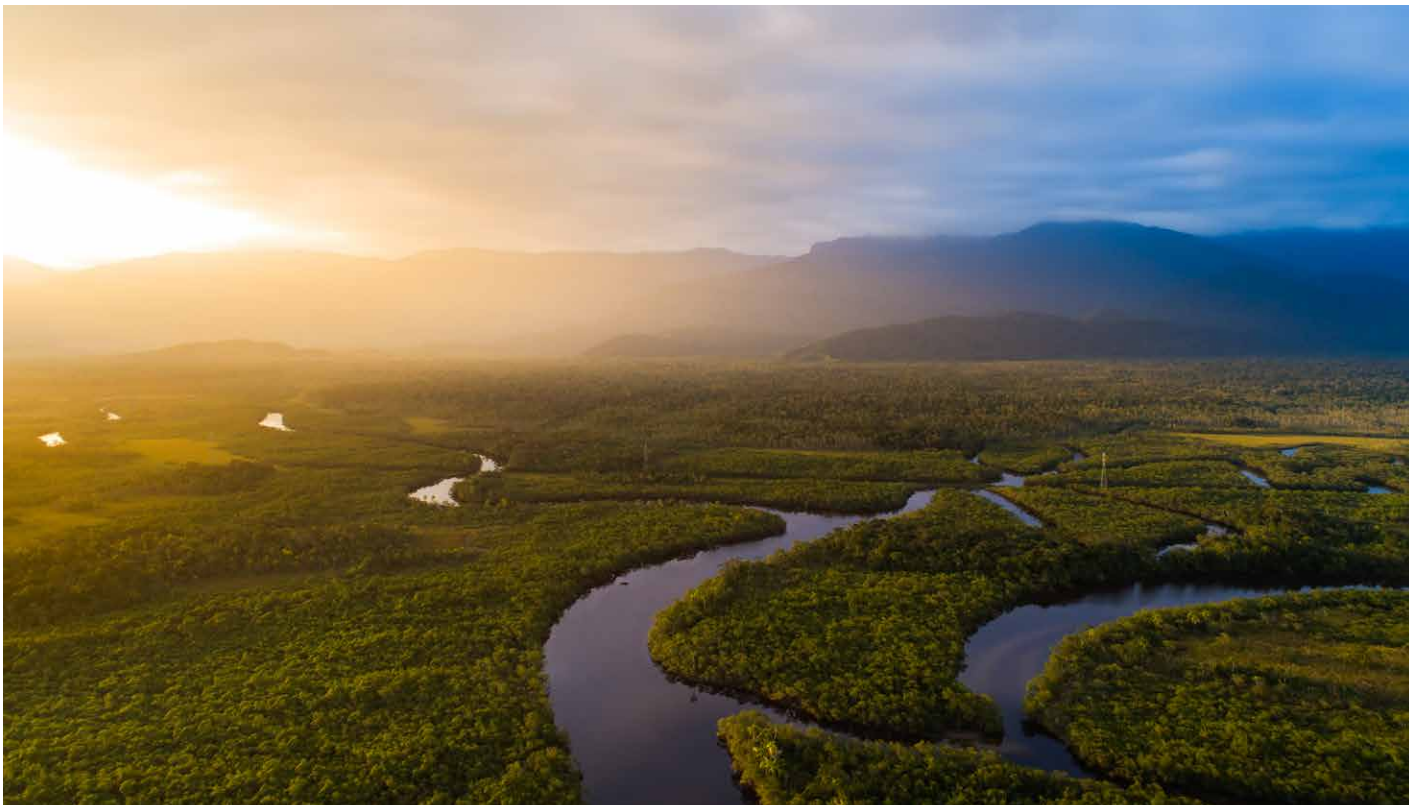
The SF Navigator helps policymakers and other public actors assess the legislative and regulatory framework currently governing their financial system; identify the policy and regulatory reforms required to meet national sustainability objectives, needs and priorities; overcome sustainability gaps and constraints, and seize opportunities for investment and growth. Drawing on international frameworks, standards and good practices, the SF Navigator offers insights into the scope and design of different policy, regulatory, supervisory and other related measures to raise awareness of financial markets; improve the transparency and reliability of non-financial information; align prudential requirements and risk management with sustainability challenges; support sustainable finance market developments; help build the capacity of financial market actors; and lead by example.

Sustainable finance requires a holistic and integrated approach coordinated by a variety of public and private sector stakeholders.

The private sector has a critical role to play in aligning capital flows with global targets, financing the transition to a sustainable economy, and building resilience to the risks. The public sector's responsibilities include creating a regulatory and policy framework with clear rules and incentives for a successful transition of the economy and financial sector.

Advancing the sustainable finance agenda requires strong leadership and understanding the need for partnerships and cooperation.

Public, private sector, and civil society stakeholders need to engage effectively, and national authorities and initiatives must be well coordinated. Given that sustainable finance is still an emerging field, a concerted effort is needed from all stakeholders to establish a level playing field that mainstreams sustainability, acquire the necessary knowledge and skills and, ultimately, shift their mindset of how a financial sector fit for the challenges of the 21st century should operate.



2. SUSTAINABLE FINANCE: A GLOBAL IMPERATIVE

Limiting global warming and environmental degradation while also ensuring sustainable livelihoods is one of the defining challenges of our time.

The consequences of climate change, ecosystem damages, and biodiversity loss are no longer distant theoretical scenarios, but a daily reality for people around the world. In 2019, the World Meteorological Organization (WMO) reported that global warming had reached 1.1 degrees Celsius above pre-industrial levels.[3] Global warming leads to chronic changes in weather patterns and earth systems, such as rising sea levels, as well as more intense and frequent weather extremes, such as severe droughts, heatwaves, tropical storms, and flooding. Immediate impacts can include crop failures, devastating wildfires, and health issues that threaten socio-economic development and livelihoods.

Human activities have significantly altered natural environments across most of the planet, threatening biodiversity and the ecosystem services on which human livelihoods and well-being depend.[4]

Tackling these pressing environmental, climate, and social challenges requires nothing less than a structural transformation that sets economies on a sustainable path to meet the global ambition of achieving carbon neutrality by 2050.[5] The financial sector is an essential component of this transition and has a stake both in mitigating sustainability-related risks, building resilience and channeling capital to sustainable uses.

The financial sector is exposed to a range of risks, from environmental and climate risks to those posed by social pressures, including infectious diseases and their socio-economic consequences such as the COVID-19 pandemic-related global crisis.

In the 2020 World Economic Forum Global Risks Report, the top five risks in terms of likelihood were all environmental risks — a first in the report's 10-year history. In terms of impact, the single greatest risk facing humanity was identified to be the failure to mitigate and adapt to climate change.[6] For the financial sector, climate-related risks generally fall into two categories:

- **Physical risks** from the physical impacts of climate change, such as damage to assets like buildings, infrastructure, and crop yields caused by extreme weather events; and
- **Transition risks** from the policy, legal, technological, and market changes associated with the transition to low-carbon economies.[7]

The Bank for International Settlements (BIS) warns that, if not managed properly, climate-related risks could not only threaten the stability of financial institutions, but also lead to a systemic financial crisis.[8]

Today, central banks worldwide recognize the seriousness of climate-related financial risks and consider it part of their mandate to address them.[9] For instance, the distinct dynamics of climate change demand new approaches to risk analysis and risk management guided by a forward-looking perspective. However, these are challenging to introduce, not only for banks, but also for financial regulators and supervisory authorities.

While the financial sector faces many risks related to sustainability challenges, the transition to sustainable, low-carbon, and climate-resilient economies also creates many opportunities for business and finance.

The financial sector therefore plays a vital role in this transition. In emerging markets alone, national commitments under the Paris Agreement would require USD 23 trillion in climate-smart investments until 2030.[10] This includes investments in renewable energy, low-carbon cities, energy efficiency, sustainable forest management, and climate-smart agriculture. As estimated by the Climate Policy Initiative, climate-related financial flows have increased steadily in recent years, exceeding half a trillion US dollars in 2018, but still fall far short of global investment needs.[11]

Public institutions and private sector actors have complementary roles to play in aligning financial flows with the Paris Agreement and the SDGs.

This global endeavor will require nothing less than a structural shift in the allocation of public and private capital. Given the limited availability of public funds, which will become even scarcer as the COVID-19 pandemic threatens to drive economies into a global recession, mobilizing and reorienting private financial flows to meet sustainability goals has become a priority for governments worldwide. Increasingly, financial institutions are revising their targets, strategies and governance; enhancing risk management systems and disclosure practices; and shifting to new markets, sustainable financial products, and services. They are also asking for stronger sustainable finance regulations to operate on a level playing field. The public sector's role includes creating a conducive environment with clear rules, incentives, and guidance that give companies, banks, and investors the security they need for long-term planning.

In a nutshell, sustainable finance is about addressing sustainability risks, building adaptive capacities, and harnessing opportunities in the transition to a sustainable economy.

In a narrow sense, sustainable finance refers to incorporating environmental, social and governance (ESG) criteria in financial decision-making processes.[12] In a broader sense, it includes the policy and regulatory measures, instruments, standards and methodologies, as well as industry actions necessary to transform the financial sector as a whole. Systematically integrating ESG risk and impact analysis in financial decision making, and shifting capital towards sustainable development at scale through innovative financial products and services, require aligned and coordinated public and private sector action.

National sustainable finance reforms can benefit from international good practice.

A multitude of regional and international sustainable finance initiatives have emerged in recent years. The G20 Green Finance Study Group (GFSG) under the Chinese Presidency in 2016, the UN Principles for Responsible Investment (PRI), the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), and the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), among others, have sparked action by policymakers, regulators, and the industry to advance sustainability practices in financial markets. In this dynamically shifting market environment, international coordination is critical to avoid a fragmented patchwork of national approaches that can impede finance flows in a globalized financial system. Learning from and benchmarking against emerging standards and good practices worldwide also helps to accelerate action, but adapting international principles and approaches to domestic economic, social, and political contexts can pose significant challenges for policymakers.

Creating a sustainable financial system at the national level is a complex task requiring the efforts of a range of stakeholders.

National and regional sustainable finance policy initiatives have gained momentum in recent years. The Green Finance Measures Database identifies close to 400 sustainable finance regulations in 60 jurisdictions, with almost a quarter introduced or announced in 2019 alone.[13] Despite notable progress in some jurisdictions, it remains a challenge for countries to fully mobilize financial flows in line with their sustainability goals, including their Nationally Determined Contributions (NDCs). No G20 country is yet aligned with Article 2.1c of the Paris Agreement,[14] and the Climate Action Tracker shows that only two countries in its sample, Morocco and The Gambia, have taken appropriate action to meet their climate commitments.[15] Analysis from the Frankfurt School's Finance Fit for Paris (3fP) Tracker shows that regulatory alignment with the Paris Agreement has advanced in some European countries, but there is room for improvement.[16]

The majority of governments, regulators, and financial institutions around the world lack a comprehensive approach to integrating sustainability in financial policies, processes, and practices.

Advancing the sustainable finance agenda will require strong leadership from decision makers, political will, effective engagement of public, private and civil society stakeholders, coordination between various national authorities, and new knowledge, skills, and mindsets.

Box 1. Overview of Knowledge and Standard-Setting Hubs for Sustainable Finance

- The Green Finance Measures Database (GFMD) launched in 2019, and the Green Finance Platform, are part of the Green Growth Knowledge Platform (GGKP) hosted by UNEP, UNIDO, OECD, and GGGI. The database includes around 400 green and sustainable finance policy measures: ↗ https://greenfinanceplatform.org/financial-measures/browse.

- The International Capital Market Association (ICMA) launched a report in 2020, "Sustainable finance: Compendium of international policy initiatives & best market practice", which includes international and national actions and will be updated regularly: ↗ https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainable-finance-initiatives/.

- The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) was launched in 2017, and by early 2020 had grown to 66 members and 12 observers. The NGFS develops and publishes recommendations and methods to help central banks, financial regulators, and supervisors foster sustainable finance through their mandates: ↗ http://www.ngfs.net/.

- The International Network of Financial Centers for Sustainability (FC4S), launched in 2017, is a network of financial centers (such as London, Luxembourg, and Frankfurt) in partnership with UNEP FI. Fc4S publishes "state of play" reports on how financial centers contribute to advancing green and sustainable finance: ↗ http://www.fc4s.org/.

- The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) published recommendations in 2017 to improve disclosure on climate-related financial risks and opportunities. The TCFD fosters the development of methodologies and tools, and provides a knowledge hub on TCFD implementation: ↗ http://www.fsb-tcfd.org/.

- The EU Commission's knowledge hub on sustainable finance outlines the implementation process of the EU Action Plan on Financing Sustainable Growth with all related documents and information, including the work of the Technical Expert Group (TEG): EU Sustainable Finance. The EU has also launched the International Platform on Sustainable Finance (IPSF), which will support global exchange on sustainable finance policy. It is supported by the Coalition of Finance Ministers for Climate Action.

- The Sustainable Banking Network (SBN) (↗ www.ifc.org/sbn) is an IFC-supported network of emerging market financial sector regulators and banking associations from 39 member countries. It provides progress reports, guidance, and more.

- The FS-UNEP Centre's Finance Fit for Paris (3fP) Tracker (↗ www.3fp-tracker.com) provides a comparative analysis of sustainable finance regulation in several EU countries from a civil society perspective.

- The UN-convened Sustainable Stock Exchanges Initiative (↗ www.sseinitiative.org) is a network of stock exchanges that incorporate sustainability practices in their policies and requirements. Several international regulatory bodies have established sustainable finance work streams and initiatives, including the BIS/Basel Committee's High-level Task Force on Climate Risk, the IOSCO Sustainable Finance Network (↗ www.iosco.org).

- Information on green and sustainable finance principles and investing is provided at the websites of the UNEP FI's Principles for Responsible Banking (PRB) (↗ www.unepfi.org), the Principles for Responsible Investment (PRI) (↗ www.unpri.org) and the Principles for Sustainable Insurance (PSI) (↗ www.unepfi.org/psi). The UN Sustainable Development Goals (SDG) knowledge platform provides broad knowledge and expertise: ↗ www.sustainabledevelopment.un.org.

- Risk management frameworks for financial institutions are provided by the Equator Principles (EP) (↗ www.equator-principles.com) and the IFC Performance Standards (↗ www.ifc.org).

- International reference frameworks for green and sustainable financial products include the ICMA's Green Bond Principles (GBP) and Green Loan Principles (GLP) (↗ www.icma.org) and the Climate Bond Standards by the Climate Bonds Initiative (CBI) (↗ www.climatebonds.net). The ICMA also provides the Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG). In March 2019, the Loan Market Association published the Sustainability Linked Loan Principles.

- The Sustainability Accounting Standards Board (SASB) works towards standards for accounting and disclosure of financially material sustainability factors, and provides a knowledge hub and interactive, sector-specific materiality map: ↗ www.sasb.org.

- Accounting for Sustainability (A4S) is a global network of accountants that supports sustainability in accounting through collaboration, standardization, and education: ↗ www.accountingforsustainability.org.

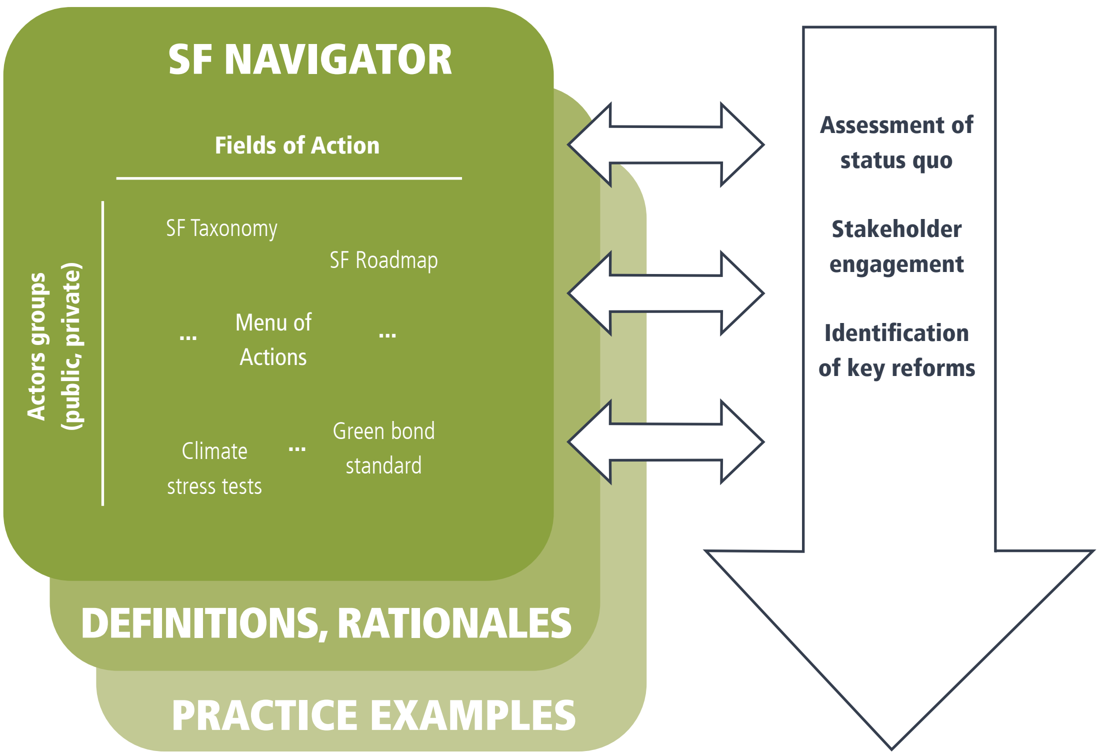
3. SF NAVIGATOR: A DIAGNOSTIC TOOL FOR SUSTAINABLE FINANCIAL SYSTEMS

The SF Navigator is a diagnostic tool that guides policy and regulatory reforms for sustainable financial systems.
The SF Navigator helps national governments, regulators, and other public au-thorities take stock of and analyze existing sustainable finance policies, regulations and sector practices; assess gaps and constraints in the policy and regulatory landscape; and identify opportunities to leverage sustainable investments more effectively. This process involves consultation with relevant stakeholders from the public and private sector, academia and civil society, and helps identify the roles, responsibilities, and opportunities for these key actors.
Based on this assessment, the SF Navigator draws on a wealth of international frameworks and good practices of sustainable finance leaders to provide a menu of potential actions for key actors to promote sustainable finance within their sphere of influence.

The SF Navigator provides guidance on the national reform agenda and stakeholder engagement.
Given that sustainable finance is a multi-faceted issue involving a range of actors and economic sectors, there is a risk that well-intended but uncoordinated action by individual stakeholders, such as government ministries, central banks, regulatory and supervisory authorities, or financial industry associations, could result in a less effective approach or outcome, and an uneven playing field. However, the SF Navigator supports holistic analysis and coordination of efforts to enhance existing financial policy and regulatory frameworks, and ensure that individual actions are aligned with national development and sustainability targets.
In short, the SF Navigator can be used to lay the foundation for a comprehensive national or institution-specific sustainable finance strategy and action plan, and support public actors in charge of sustainable finance to strengthen their positions and build alliances within national and international sustainable finance initiatives and forums.

The SF Navigator structures policy and regulatory action on sustainable finance by groups of key actors and broad action areas, resulting in a flexible menu of actions.
The menu of actions is a comprehensive list of potential measures available to the key actors involved in the transformation of the financial system. The following sections provide a brief introduction to these actors and action areas.

Figure 1: Overview of the scope and use of the SF Navigator



3.1 KEY ACTORS

The key actors included in the SF Navigator are public and private stakeholders who typically play a central role in driving, creating, and operating within a sustainable financial system.

Public actors, such as governments and government agencies, central banks, and financial sector regulators and supervisors, shape the legal and regulatory conditions of a country's financial system, setting the rules and incentives that guide corporate and financial decision making. The public sector is also an active participant in financial markets itself, for example, when raising, spending and investing public funds, or providing financing to households and companies through public financial institutions.

Private actors include commercial banks and investors (asset managers, mutual funds, pension funds, insurance companies, and individual investors), as well as stock exchanges, rating agencies, data providers, and other financial service providers.

Civil society organizations, research institutes, and academia also play a role by providing relevant data, research and analysis, information and knowledge to the public sector, the financial industry, and the public. Figure 2 summarizes the groups of key actors covered by the SF Navigator.

How can key actors benefit from the SF Navigator?

The SF Navigator is designed primarily to advise governments, central banks, financial regulators, and supervisory authorities on policy and regulatory actions.

The SF Navigator can support governments in:

- systematically assessing existing sustainable finance policy, regulation, and sector practices;
- identifying gaps and opportunities in the alignment of national sustainability targets, needs, and priorities;
- providing a menu of potential measures and actions to promote sustainable finance at the national level; and
- offering insights and guidance on the development of a sustainable finance strategy or roadmap, either for the financial sector as a whole, or for specific parts of the financial sector (e.g. capital markets, banking).

The SF Navigator can support central banks, financial regulators, and supervisory authorities in:

- systematically assessing existing sustainable finance regulations, monetary policy, and supervisory practices;
- assessing gaps and potential actions, with reference to international frame works and good practices;
- developing or enhancing regulatory standards, guidelines, methods, and tools to integrate climate and sustainability-related risks in prudential regulation, supervision, and monetary policy;
- aligning policies and operations with internal sustainability objectives, such as own portfolio management and procurement; and
- enhancing the role of international initiatives, such as the NGFS.

Moreover, the SF Navigator can benefit public financial institutions and public agencies by:

- strengthening their role as a driving force and promoter of sustainable finance;
- setting standards and providing guidance and examples of good practices, such as innovative financial instruments or ESG risk management practices; and
- taking steps towards adopting sustainable finance strategies, sustainable finance products, methods and tools, and raising public awareness.

The SF Navigator can also benefit private/public actors and initiatives by:

- helping them take a proactive role in driving the sustainable finance agenda;
- supporting them in enhancing and harmonizing sustainable finance approaches; and
- developing or aligning strategies and commitments with national and international initiatives and good practices, such as the Principles for Responsible Banking or the Principles for Responsible Investment, to help them position themselves as frontrunners in sustainable finance.

The SF Navigator can benefit civil society and academia by:

- serving as a source of knowledge and inspiration to link their work to the sustainable finance policy and regulation agenda, including through research, awareness raising, education, campaigning, and advisory for a sustainable financial system;
- supporting them to compare the national sustainable finance policy and regulatory framework against international good practice; and
- expanding their regional and international networks through access to peers and academic cooperation and, ultimately, expanding public access to knowledge on sustainable finance.

Figure 2: Key actors included in the SF Navigator

3.2 ACTION AREAS

The SF Navigator clusters policy actions, such as integrating sustainability in laws, regulations, rules, guidelines, strategies, target setting and incentives, into six main categories.
These action areas represent different dimensions of sustainable finance measures and include: awareness raising and agenda setting; data, standardization and disclosure; prudential requirements and risk management; market support instruments; leading by example; and capacity building (Figure 3).

While some action areas will be more relevant for some key actors than others, the categories are intended to support a structured analysis with a strategic and focused approach to sustainable finance.

The remainder of this section outlines the key topics considered in each action area.

Figure 3: Action areas covered by the SF Navigator

SETTING THE POLITICAL AGENDA AND RAISING AWARENESS

In most countries, environmental and social policies have been in place for decades across industry sectors.
The financial sector has only recently begun to adopt sustainability principles and standards in a more integrated way.[17] While financial policymakers, central banks and supervisors, and the financial industry, have made considerable progress in recent years, holistic and system-wide frameworks and standards are still scarce.[18] With national and global targets to be met for sustainable development and climate action, setting the political agenda and raising awareness are essential first steps in sustainable finance reform.

Showing leadership — with a clear and consistent strategy, defined targets, and implementation plan — sends important signals to the market and can accelerate change in the financial industry.[19]
Early and inclusive engagement of key stakeholders, from public institutions and the financial industry to the broader financial ecosystem and civil society, raises awareness of the importance of sustainable finance and the roles these key actors can play. For example, stakeholder engagement can create a common understanding of the role of the financial sector and the opportunities of sustainable finance, both in terms of new investments and in creating long-term value for society and the economy. A good engagement strategy provides a solid basis for the very complex process of developing and implementing a sustainable finance policy agenda. To create a consistent and effective national reform agenda, it is vital to coordinate and align the efforts, objectives, and challenges of diverse stakeholders, particularly in the public sector where a variety of entities will contribute.

Establishing dialogue and engagement platforms can help involve key stakeholders in the discussion and political process of drafting, consulting, and delivering a sustainable finance agenda or strategy.[20]
The strategy should contain a clear narrative, targets, key steps and measures, a timeline, and a stakeholder engagement plan. Ideally, a sustainable finance strategy will be an integral part of a country's overarching sustainable development strategy.[21] Coherence across sectors (e.g. energy, transport, construction, agriculture) and clear policy signals are important to establish a level playing field, set expectations, and facilitate long-term strategic planning. A comprehensive approach can help determine a country's investment needs, priorities and opportunities, and to identify where the financial sector can contribute most to the transition to a sustainable economic and social system. Instruments for dialogue and engagement may include multi-stakeholder platforms and committees, conferences, roundtables and expert/advisory council meetings, as well as public discussion papers, research, analysis, and public consultations. International cooperation and peer learning can also provide useful insights and motivate national stakeholders to advance a policy agenda for sustainable finance.

Example 1: Morocco's sustainable finance roadmap

Aim: The **NDCs** submitted by Morocco at the COP 21 in 2015 aim to reduce GHG emissions by 32 percent by 2030, requiring estimated overall investments of USD 45 billion.[22] To meet this target, **strong involvement from the Moroccan financial sector** is required.

Actors and stakeholders: Private and public sector actors in Morocco's financial market, including the Moroccan Capital Market Authority (AMMC) and the Ministry of Economy and Finance.

Actions: The stakeholders jointly developed the **Roadmap for aligning the Moroccan financial sector with sustainable development.**[23] The roadmap covers **five pillars** that outline actions for different segments of the financial sector: (i) social and environmental risk governance, (ii) development of sustainable financial tools and products, (iii) promotion of financial inclusion, (iv) capacity building, and (v) transparency and market discipline.

Awareness raising and agenda setting

Output and impact: The development and implementation of the roadmap laid the foundation for aligning Morocco's financial sector with national climate commitments, including collaboration between the Casablanca Stock Exchange and the AMMC on an **ESG benchmark index** and the AMMC's **legal framework and guidelines**[24] **for green and sustainable bonds.** Since the roadmap was developed (**between COP 22 in 2016 and early 2019**) there has been a **USD 420 million** increase in sustainable finance products on the market.[25]

Sustainable finance roadmap

Learning from Morocco's experience: Today, Morocco's sustainable finance activities are in the advanced **implementation stage.**[26] It is one of only two countries on track to align with the below 2°C target.[27] One reason for Morocco's success may be the **integrated and holistic approach** taken from the beginning from the highest political level. According to the AMMC, **alignment with international standards** should be encouraged, and processes should build on international experience. Ongoing **awareness raising and dissemination of information** among key stakeholders cannot be underestimated. The AMMC also determined that certain challenges need to be addressed, such as a **common definition** of "green" and ensuring a minimum **project size** to attract investors.[28]

Governments/central banks, financial regulators, and supervisory authorities/public-private actors and initiatives

DATA, STANDARDIZATION AND DISCLOSURE

Without sufficient and reliable data and information disclosure, financial markets may price or value assets incorrectly, resulting in a misallocation of capital.
Insufficient and inconsistent data is a major barrier to understanding and internalizing environmental, climate, and social risks and impacts, and to seizing green and sustainable investment opportunities. To shift financial flows towards sustainable investments on a larger scale, the market needs to be able to more easily identify and better communicate which economic activities qualify as sustainable and which do not. Therefore, classification systems (taxonomies) and systematic disclosure of company information on sustainability factors are vital for the financial industry to lend and invest more sustainably. Leading global disclosure frameworks and standards include the SASB Standards (sustainability accounting), TCFD Recommendations[29] (climate-related disclosure), the GRI Standards[30] (economic, environmental, and social impact reporting) and the International Integrated Reporting Council's corporate reporting framework (integrated reporting), among others.[31]

A reliable database is also critical for policymakers and regulators to better understand sustainability-related risks, impacts, and opportunities.
To identify, assess, quantify, manage, and report them, stakeholders need appropriate data, tools, methodologies, knowledge, and skills. These, in turn, provide a foundation for implementing adequate policies, prudential regulation and supervision, informed financial decision making, and quality research.

Data gaps and the lack of data standardization need to be addressed to improve the availability of comprehensive, reliable, and comparable information.
For instance, climate-related risks and opportunities are currently not systematically assessed and well understood.[32] There are data and methodological gaps at the asset, company, sector, and macro-economic level. For instance, information on the physical risks of climate change lacks regional granularity and longer time horizons, company and asset-level data is often not publicly available, and linkages with the value chain are complex to model. Information on transition risks lacks standardized reference scenarios and a transparent database, assumptions, and methodologies.

These shortcomings could be addressed by standardized definitions, metrics, and methodologies, as well as clear guidance on the adoption of frameworks and concepts such as taxonomies, risk assessments and reporting, which would make sustainability risks and impacts more transparent. Standardization reduces information gaps and inconsistencies, makes analytical information (such as credit and sustainability performance ratings) more comparable, facilitates compliance with respective requirements, lowers transaction costs, and can foster peer pressure (i.e. the race to the top).

Example 2: The EU Taxonomy

Aim: Develop a **classification system** that clarifies which economic activities qualify as environmentally sustainable. For investment purposes, the EU Taxonomy provides transparency and a "common language" for (environmentally) sustainable investments.[33]

Actors and stakeholders: The Technical Expert Working Group on Sustainable Finance **(TEG)** — a diverse group of technical experts from the public and private sector, academia, and civil society — was mandated to develop the taxonomy by the **European Commission**, which leads the EU's sustainable finance agenda in a political process with the European Parliament and the European Council, including the Member States.

Action: The development of the EU Taxonomy is a cornerstone of the European Commission's 2018 **Action Plan on Financing Sustainable Growth.** The **final Taxonomy report** was published in March 2020. It includes performance thresholds (technical screening criteria) for 70 economic activities for mitigation and 68 activities for adaptation to identify economic activities for investment compatible with achieving climate neutrality by 2050.

Data, standardization and disclosure

Output and impact: The EU Taxonomy affects large companies and organizations across all industries. It covers **nine sectors** (energy, transport, buildings, manufacturing, water, waste, ICT, agriculture and forestry, finance) that produce approximately **93 percent** of the EU's GHG emissions. EU Taxonomy-compliant reporting will become **mandatory** for companies and financial institutions from 31 December 2021 onwards.[34]

Taxonomy

Learning from the EU's experience: The development of the EU Taxonomy involved public consultations and engagement with **over 300 experts** from different economic sectors, the financial industry, academia, politics, and NGOs, as well as the general public. The coordination of such a **multi-stakeholder and multi-level coordination process** required considerable, well-organized, and transparent effort. One strength of the EU Taxonomy is that it is **based fully on science**. The TEG was mandated to develop its recommendations strictly on scientific evidence, which bolsters the **credibility** of the Taxonomy. To develop consistent reporting requirements and standards, the EU intends to work with governments outside the EU, including through the International Platform on Sustainable Finance,[35] to make **the EU Taxonomy work for investors and investees globally**. The EU Taxonomy could therefore serve as an i**nternational reference for alignment** efforts and an example of good practice.

Governments/central banks, financial regulators, and supervisory authorities/ public financial institutions and public agencies/ public-private actors and initiatives/civil society and academia

PRUDENTIAL REQUIREMENTS AND RISK MANAGEMENT

In recent years, regulatory, supervisory, and standard-setting organizations have focused more heavily on understanding and accounting for the financial materiality and systemic nature of environmental and social risks.[36]
Climate change in particular has been recognized by central banks and supervisors as a source of risk to financial (and price) stability — a "new type of systemic risk" (BIS 2020).[37] Ensuring that the financial sector is aware of the full scope of its exposure to financially material risks, including ESG risks, and becomes resilient to these risks (e.g. with sufficient capital buffers), is at the core of a sustainability-aligned mandate for financial stability.[38]

For financial institutions, micro-prudential regulation in some countries already requires risk management systems that explicitly integrate ESG in standard processes for lending, investment decisions, and portfolio management.[39]
However, effective implementation can be challenging. Adequate data, analytical tools and methodologies, and appropriate skills are needed to robustly assess, control, and mitigate sustainability-related risks. At the macro-level, financial stability monitoring and macro-prudential supervision practices increasingly consider the potential implications of sustainability for the soundness and stability of financial institutions and the financial system as a whole. Due to growing awareness, prudential regulation and supervisory instruments are evolving and increasingly reflect aspects of sustainability.[40]

However, it is challenging to integrate sustainability risk analysis in financial stability monitoring and prudential supervision, particularly climate-related risks.
This is largely due to the complex, interacting, non-linear, and fundamentally unpredictable dynamics of climate-related physical and transition risks, and other environmental issues, such as biodiversity loss. To better understand and address the potential near- and long-term impacts on individual financial institutions and the financial system, many regulators, supervisors, and financial sector stakeholders have developed analytical tools and methods to assess risks related to climate change and environmental degradation.[41, 42]

Some have begun to explore and develop forward-looking risk assessment approaches that extend the time horizon from just a few years to periods spanning decades, demonstrating that a long-term view is needed to adequately address environmental and social risks and objectives.[43] For instance, exploratory tools, such as scenario-based analysis (assessing financial asset value developments under various "possible futures" depending on global warming and policy responses) and climate stress testing (under acute climate-related physical or transition shocks)[44] can help augment traditional risk management approaches. More research and analysis are needed to prudently navigate this new field, and collaboration will be vital. There is much to gain from regulators, supervisors, industry, and the research community joining forces at the national and international level.

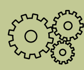
Example 3: The Dutch Central Bank's climate stress tests

Aim: Test the **stability and resilience** of financial institutions in the Netherlands to climate-related risks.

Actors and stakeholders: Dutch Central Bank (DNB)

Action: The DNB set up one of the first climate-related scenario-based **stress-tests** in 2017 and is considered a **frontrunner** in this field.[45] The DNB has conducted **several stress tests** on disruptive policy and energy transition scenarios,[46] including the potential implications of introducing a carbon tax to the Dutch economy.[47]

The DNB began by defining plausible scenarios (the policy shock of a USD 100 carbon tax per ton of CO_2 and a technology shock resulting in stranded fossil fuel assets). It then translated these scenarios, separately and combined, into macro-economic impacts on GDP, consumer prices, stock prices, and interest rates. It estimated the vulnerability of each sector to these transition risks and, finally, calculated the potential losses for financial institutions. The climate stress test results indicate losses of up to 11 percent of assets for insurers and up to three percent for banks, potentially leading to a reduction of about four percentage points in Dutch banks' regulatory capital CET1 ratio.[48]



Prudential requirements and risk management

Output and impact: With **one of the first frameworks for** climate-related, scenario-based stress-testing, the DNB **generated valuable insights** into what drives climate-related risks, and **methodologies** for scenario analysis.

Climate/sustainablility stress test

Learning from the Dutch experience: Although the **practical experience** gained from the climate stress tests is still limited, the results have shown that the impact of transition risks from disruptive energy technology and policy shifts, for example, can be sizeable for financial institutions. Conversely, the financial sector can mitigate these risks by integrating transition risks in their risk management processes more explicitly. Stress test results also show that reliable and transparent policymaking can minimize the losses arising from policy shocks.[49] However, the IMF and the DNB agree that more research is needed. **Additional stress tests** need to be conducted, **data gaps closed** and, most importantly, the results of the tests must be appropriately **reflected in the risk management strategies** and policy frameworks of relevant stakeholders.

Central banks, financial regulators, and supervisory authorities

MARKET SUPPORT INSTRUMENTS

Market support instruments can foster the development of sustainable financial products and markets.

While investment needs are enormous and investor demand is strong, there is still a wide sustainability investment gap,[50] revealing a significant mismatch between supply and demand. Common financial barriers to the growth of bankable or investable sustainable projects include: unfavorable risk-return profiles and high financial transaction costs, for instance, due to high (actual or perceived) risks, small project sizes, or no track record with new products/technologies and markets; additional potential costs (e.g. costs related to monitoring, reporting, and verification requirements); and regulatory constraints.

Public support can be necessary to address market deficiencies and financial barriers, encourage new sustainable finance market segments, and channel capital towards sustainability-related objectives.

Public instruments to create this enabling environment may include financial and technical support for the development of financial products, services, and markets (e.g. standards or guidelines for sustainability-themed bonds and loans, own issuances, liquidity provision); investment programs; monetary policy ins-truments;[51] incentives (including tax incentives for green financial products) and subsidies (e.g. for external review/certification, concessional finance, research and development); de-risking tools (e.g. guarantees, insurance, equity investments); and project development support.[52] Clear policy signals and the revision of certain framework conditions, including existing policies, incentives, and instruments like inconsistent taxes and subsidies, are also important to foster an enabling environment, change the risk/return perceptions of investors, and instill confidence in shifting capital towards sustainable investments.

Example 4: Asset aggregation in Nordic countries

Aim: Support sub-sovereign entities like municipalities to **overcome common barriers in accessing green debt markets.**[53] Through local government funding agencies (LGFAs), local authorities or municipalities issue joint bonds. Since local authorities are small entities, they face limitations accessing capital markets. LGFAs are better equipped to issue securities and may be more creditworthy and have considerably lower transaction costs for pooled financing.

Actors and stakeholders: LGFAs and associated sub-sovereign (e.g. municipal) and federal-level entities. Nordic LGFAs[54] have **different ownership structures** based on their risk profile: MuniFin (Finland) is owned by both the state and municipalities, Kommuninvest (Sweden) by member municipalities, and KBN Kommunalbanken (Norway) by the state.

Market suppot instruments

Action: Typically, green bond issuance by a LGFA follows a **similar pattern**. Initially, sub-sovereign entities like municipalities submit their selected project proposals to the LGFA. The LGFA follows a defined and precise process to review whether the submitted proposals fulfill the eligibility criteria as defined by their green bond framework, which typically complies with the ICMA's Green Bond Principles and relevant national standards. If the proposed project is aligned with the green bond framework, the municipal or city council receives a green loan from the LGFA from the proceeds of the green bond issuance.

Asset aggregation

Output and impact: Diversifying investment options and supporting local development led to an expansion of **the green bond market** and higher market standards in Nordic countries. To date, over 20 labelled green bonds have been issued by the four LGFA frontrunners in the Nordic green bond market.

Learning from the Nordics' experience: Access to international financial markets is a key challenge for sub-sovereigns. Asset aggregation is an **innovative instrument** to provide sub-sovereign entities like municipalities access to the green bond market. Nordic countries are among the most developed economies in the world, which is reflected in a high degree of technical and financial know-how as well as the capacity of respective institutions. The **replication of asset aggregation** might prove more difficult in countries with less developed financial markets or under specific legal conditions. However, the benefits in terms of access to capital and the realization of sustainable community projects can be significant. Therefore, the general approach of using aggregation instruments could be assessed for replication in other country settings.

Public financial institutions and public agencies

LEADING BY EXAMPLE

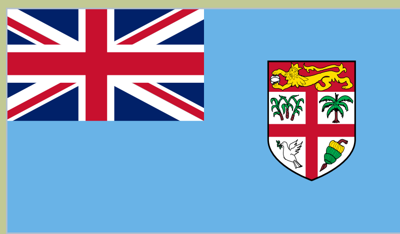
When the public sector leads by example, confidence in the market grows and market adjustment processes accelerate, especially if they are reinforced by a clear and comprehensive path to policy reform.[55]

By taking a leadership role, public institutions can encourage and drive other public and private sector actors to integrate sustainable finance in their strategies and operations. Demonstrating decisive and consistent action across operations and governance structures signals a credible, long-term commitment to the sustainable finance agenda.

Actions can include revising an institution's overarching strategy, policies, and governance structures.

The allocation of internal resources to mainstream sustainable finance within the institution, including assignment of responsibilities and capacity development, is also important. Alignment of operations, budgets, financial portfolios, and assets with sustainability targets can contribute to market building activity, alter perceptions of risks and opportunities, and may provide a useful precedent for dialogue with regulated or supervised entities.[56]

Example 5: Fiji's sovereign green bond issuance



Aim: The **Government of Fiji issued a sovereign green bond** to strengthen Fiji´s responsiveness and adaptability to the impacts of climate change, an urgent issue for the small island nation.[57] Since bond markets use sovereign issuances as benchmarks, the sovereign green bond was also intended to support the development of the private green bond market.

Actors and stakeholders: Government of Fiji, Fiji Reserve Bank, International Finance Corporation (IFC) and the World Bank

Action: At the request of the Reserve Bank of Fiji, the IFC and World Bank provided **technical assistance** to support the Government of Fiji in issuing a sovereign green bond. The **cooperation** was part of a three-year umbrella project funded by the IFC and the Australian Government. Fiji issued its **first sovereign green bond** in November 2017, raising 100 million Fiji dollars (USD 50 million).[58] Sustainalytics, a provider of ESG research and ratings, provided **a second opinion** on Fiji's green bond framework based on the internationally recognized Green Bond Principles by the ICMA.

Output and impact: The issuance of Fiji's first green bond was **very successful**. Investors showed strong demand in the first tranche, which was oversubscribed. When the government re-opened the sovereign green bond program and it was listed on the London Stock Exchange in April 2018, Fiji became the third sovereign green bond issuer after France and Poland, and the **frontrunner among developing countries**. Fiji's green bond included elements of coastal blue natural capital taking both climate change mitigation and adaptation into account. While the impact is similar to the first blue bond ever issued by the Republic of the Seychelles in 2018 for USD 15 million, both issuances were placed privately and received assistance from the World Bank Group.[59] Both sovereign bond issuances included exposure to longer term climate-related risks, such as extreme weather events and rising sea levels.[60]

Learning from Fiji's experience: Fiji sent a **strong signal to international markets**, and developing countries in particular, that green finance works for developed, emerging, and developing countries alike. It demonstrated the government's efforts to **find climate finance solutions** and the opportunities to be "creative and innovative in mobilizing funds and create win-win outcomes for countries and investors in adapting to the serious effects of climate change." (Prime Minister Frank Bainimarama)

The proceeds from Fiji's sovereign green bonds are used **primarily for climate adaptatio**n, a global first. As the impacts of climate change vary significantly between geographies, other highly exposed countries can use the example of Fiji for inspiration and guidance. The example offers **important lessons** for other countries and is a **strong example** of international cooperation on sustainable finance.

Leading by example

Sustainability-linked bond inssurance/support for inssurance

Governments/central banks,-financial regulators, and supervisory authorities

CAPACITY BUILDING

The transformation of the financial system, including the development of new markets, products, services, tools and methodologies, requires new knowledge and skills.
While standard assumptions, practices, processes, and educational foundations are being challenged and revised, extensive work is needed to develop, adapt, and mainstream technical and human capacities in the public and private sector. Financial institutions and the broader financial market ecosystem may struggle to adapt to a changing economic and financial system. Strengthening adaptive capacities through training opportunities, public engagement and support can help to reduce adjustment costs, overcome institutional inertia and resistance, and facilitate a faster and smoother implementation and adjustment process.[61]

Public entities can encourage and provide support for training and assistance for public sector officials and industry professionals and organizations.
Educational programs can be introduced and university/school curricula revised. Training programmes and information access platforms can help raise awareness and promote sustainability-related financial literacy on a broad public scale. The financial sector can enhance in-house capacity by working with their peers in relevant associations or engaging with local academic and training institutions, or with the various local and international initiatives that support capacity building.

Example 6: Kenya's Green Bond Programme (GBPK)

Aim: Develop a **domestic green bond market** in Kenya and support the issuance of the first green bond, thereby **building capacity for innovation in the financial sector**.[62]

Actors and stakeholders: Several private and public (financial) market actors supported the Green Bond Programme (GBPK), including the Nairobi Securities Exchange (NSE), the Climate Bonds Initiative, the IFC, WWF Kenya, and other technical partners.

Action: In 2017, **six work streams** were set up to support the development of enabling market conditions for green bonds. Among other tasks, the working groups developed a pipeline of green projects and engaged with local and international investors. As part of the strategy to promote a local green bond market and implement the GBPK, a **regulatory framework** for the issuance of listed and unlisted green bonds was launched in 2019.[63] The framework covers the eligibility of independent verifiers, disclosure and reporting obligations, and the use and management of proceeds.[64]

Output and impact: The GBPK established a **domestic green bond market**, implemented a technical support program to explore green bond capacities in Kenya, and supported capacity building efforts to offer similar programs throughout East Africa.[65] This led to the **issuance of Kenya's first (corporate) green bond** in October 2019. Certified by the Climate Bond Initiative, the bond issuance raised KSh 4.3 billion (USD 40 million) to provide 5,000 university students access to affordable, environmentally friendly accommodation in Nairobi.[66] The creation of the GBPK was a key driver in the issuance of the green bond.

Learning from Kenya's experience: Kenya made strides in establishing standards, uniting public and private sector efforts, and building the capacity of the financial sector to create a greener economy. The **joint efforts** of government and various public and private stakeholders not only led to the issuance of Kenya's first corporate green bond, but also to the development of a regulatory framework and enabling market environment for sustainable financial products. One of the lessons was that green bond programs should be designed to be **stakeholder-inclusive and market-oriented**. The successful **combination of cross-sector collaboration, capacity building, and research** in Kenya could provide a foundation for similar programs in other countries.

Capacity building

Assist in the development of sustainable financial products

Central banks, financial regulators, and supervisory authorities/public financial institutions and public agencies/public-private actors and initiatives

3.3 KEY OUTPUTS AND BENEFITS OF THE SF NAVIGATOR

The main output of an SF Navigator assessment is an analytical report with recommendations for advancing sustainable finance at the country level.

Based on a status quo and gap analysis, the assessment provides a comprehensive overview of potential actions different actors can take to support the transition to a sustainable financial system. The analysis covers both the technical substance of the reform agenda, as well as process-related questions related to managing and coordinating the reform process.

The SF Navigator can be applied flexibly to meet the unique demands of different country contexts and actors. The analysis could cover the entire financial sector, focus on sub-sectors like banking and capital markets, or specific segments like financial instruments and disclosure practices. The tool could also be tailored to specific local actors to explore concrete policy options and support internal strategic planning.

The SF Navigator may help spark national or institutional reforms by providing:

- A reference and analytical basis for a holistic approach to sustainable finance, as well as strategy and roadmap planning: A key purpose of the SF Navigator is to support countries, groups, or individual actors in developing the basis for sustainable finance action plans, strategies, or roadmaps. The SF Navigator can support agenda and target setting, and may also guide the development of a comprehensive sustainable finance strategy or roadmap documents.
- Process-related guidance: The sustainable finance reform agenda is broad and complex. Policy actions may have implications not only for different parts of the financial sector, but also for the wider economy. Sustainable finance reforms typically involve a diverse range of actors from the public and private sector, academia, and civil society. The SF Navigator provides lessons from the consultations and reforms carried out by governments, regulators, and supervisors in other countries. This can help build a platform that brings the most relevant actors together while ensuring an efficient and results-driven process.
- Systems perspective: A systems perspective is at the core of the SF Navigator. The diagnostic process and continuous involvement of key stakeholders in feedback loops help to support outcomes that are plausible, coherent and practicable.
- An impulse for greater collaboration: Sustainable finance is an interdisciplinary field in which research and knowledge, as well as a multitude of standards, frameworks, and practices are still emerging. The SF Navigator helps to navigate this dynamic and growing field and "connect the dots". It reveals overlapping actions by different groups and can be used to strengthen collaboration to address various challenges. The SF Navigator can also help to forge new collaborations by identifying interdisciplinary opportunities and tailoring international good practices to local circumstances.
- International positioning: Sustainable finance is increasingly a source of competition between financial centers and countries since a supportive environment for sustainable finance can attract private and public capital and lure talent and financial institutions.[67] The SF Navigator assessment can help formulate strategic clarity on national priorities for a sustainable financial system, and support broader political positioning on the international stage.

Box 2: Using the SF Navigator menu of actions: an example

In the SF Navigator's menu of actions, each combination of key actors and action areas yields a set of options for concrete action. For example, when the SF Navigator is used to conduct a diagnostic assessment in cooperation with a banking supervisory authority (BSA), the menu of actions would suggest concrete actions suitable for the country context.

To identify which actions the BSA could take, the following steps are recommended:

Starting point: Consider the jurisdiction in which the BSA operates. After taking national and regional specificities into account, questions may include:

- What is the exact mandate of the BSA?
- What are the BSA's current supervisory priorities?
- Which tools and actions are part of the BSA's current supervisory practice?
- Is there a specific instrument the BSA wants to develop (e.g. a sustainability stress test)?

Ambition: If the BSA aims to focus on the integration of sustainability risks in its supervisory practice, its ambition will be assessed based on the desired outputs and intended impact of, for instance, a sustainability stress test and implementing ESG risk management requirements. Ask:

- What are the goals and priorities of the sustainability stress test? Is the BSA focusing on physical risks, transition risks, or both?
- What are the current gaps between existing risk management requirements and stress test designs, and the target state?

Roles: The roles and responsibilities of the BSA and other stakeholders need to be clearly identified. Guiding questions may include:

- What are the core mandates, objectives, and responsibilities of the BSA in terms of risk management requirements and implementing a sustainability stress test?
- Which stakeholders should be involved in developing the stress test, and how?
- How would the government be involved in the process? What other stakeholders should be involved to achieve the desired outcomes? Are there conflicting interests or roles?

Implementation: A clear implementation process should be developed with well-defined targets and embedded in a clear narrative, key steps, comprehensive stakeholder involvement, and a realistic timeline.

- What has been done already to prepare for ESG risk integration and a sustainability stress test?
- Are there international experiences the BSA can learn from?
- Is there an overarching timeline relevant to the BSA's efforts, for instance, political priorities such as a broader government strategy on sustainable finance?

Outputs and impact assessment: The actions of the BSA may produce different outputs depending on its role and mode of working. The outputs of ESG risk requirements and a sustainability stress test could be:

- An update/amendment to the legally binding document that guides banks' risk management requirements or voluntary guidelines for disclosure of ESG risks; or
- An official stress test methodology or communication/statement announcing that the BSA plans to develop stress tests.

An impact assessment approach, and potentially an accompanying research component, of the BSA's actions should be incorporated in the planning, including the (early) establishment of a monitoring system, progress reporting, and evaluations. The range, magnitude, or scope of the impact can be described from a national, regional, and international perspective, as well as from the perspective of different key actors.

4. MOVING TOWARDS SUSTAINABLE FINANCIAL SYSTEMS GLOBALLY

The time for action on sustainable finance is now.
Globally, there are mounting efforts to promote sustainable finance, whether in specific market segments like green bonds, or more comprehensively through national sustainable finance strategies and action plans. For every country, there is a window of opportunity to design policies that promote the participation of financial markets in national sustainable development and climate action.

The cost of inaction is high, both for the financial sector and the entire economy.
Insufficient action poses significant threats to long-term value creation and the overall stability of the socio-economic and financial system, as well as the ability to attract international financing and investments. Efforts taken today to establish a comprehensive and progressive sustainable finance framework will support a well-managed, orderly transition and short- and long-term benefits for society, business and finance, and the planet.

The SF Navigator aims to reduce complexity and provide a comprehensive and structured framework for public actors to act.
Formulating sustainable finance goals and actions based on the menu of actions and process-related guidance will help countries as a starting point for a deepened discussion and to take steps to build a sustainable financial system.

Finally, the SF Navigator can serve as an interactive, living analytical tool in policy advisory processes that evolves as it is applied in different contexts.

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[43] Compare, for instance, the EU Commission's Action Plan on Financing Sustainable Growth (2018).

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[48] Common Equity Tier 1 (CET1) is a component of Tier 1 capital that consists mostly of common stock held by a bank or other financial institution. It is the highest quality of regulatory capital, as it absorbs losses immediately when they occur. See: https://www.bis.org/fsi/fsisummaries/defcap_b3.pdf

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[51] See NGFS, IMF.

[52] See, for instance, IFC Blended Finance web-portal and OECD. (2018). Making Blended Finance Work for the Sustainable Development Goals. OECD Publishing, Paris. Retrieved from http://dx.doi.org/10.1787/9789264288768-en IFC: Blended Finance web-portal

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