

Mongolia

Country Progress Report

April 2022

SUPPLEMENT TO THE 2021 GLOBAL PROGRESS REPORT OF THE SUSTAINABLE BANKING AND FINANCE NETWORK



Sustainable
Banking and
Finance
Network



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Acknowledgements

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About SBFN

Established in 2012, SBFN is a voluntary community of financial sector regulators and industry associations from emerging markets committed to collectively advancing sustainable finance in line with international good practice and national priorities. As of October 2021, SBFN members represented 63 institutions, 43 countries, and \$43 trillion (86 percent) of the total banking assets in emerging markets. Members are committed to i) improving the management of environmental, social, governance, and climate change risks in financial sector activities, and ii) increasing capital flows to activities with positive environmental and social impacts, including climate change mitigation and adaptation. For more information, visit www.sbfnetwork.org.

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Note to the reader: All measurement results featured in this document, such as graphs and progression matrixes, are based on data collected up to July 2021. Additional activities up to the publishing date of this country report have been included in narrative form.

1. Overall country progress – Mongolia

1.1 SBFN member institutions:

(MSFA as the representative for all Mongolian members)

[Bank of Mongolia \(Mongolbank, BOM\)](#)

Member Since: 2012

[Mongolian Bankers Association \(MBA\)](#)

Member Since: 2013

[Ministry of Environment and Tourism](#)

Member Since: 2013

[Mongolian Sustainable Finance Association \(MSFA\)](#)

Member Since: 2020

Working Groups:

Measurement (Co-Chair)

Sustainable Finance Instruments

Data & Disclosure

IDA Task Force (Co-Chair)

1.2 Other key institutions and national initiatives promoting sustainable finance

[Financial Regulatory Commission \(FRC\)](#)

[Financial Stability Council of Mongolia](#)

[Mongolian Stock Exchange](#)

[Integrated National Financing Frameworks \(INFF\) working group](#)

1.3 Overall progress

Mongolia **has continued to make progress in the “Advancing” sub-stage of the “Implementation” stage.** In June 2021, the Financial Regulatory Commission issued the Green Bond Regulation as part of the Company Debt Instrument Registration Regulation, extending the country's sustainable finance framework to cover the capital markets. In 2020, Bank of Mongolia (BOM) launched the Green Loan Statistics in line with the country's Green Taxonomy that was launched by the Financial Stability Council in December 2019. Mongolia introduced a voluntary sustainable finance framework in the financial sector, known as the Mongolian Sustainable Finance Principles. The framework was adopted by all banks in 2015 with the expansion to non-banks since 2021. Mongolia's sustainable finance framework has been implemented for a number of years, and it has a series of implementation tools in place, including guidance/guidelines, templates (for example reporting), training, online tools, and supervision guidance on how to do all this in practice.¹ Also, financial institutions (FIs) have started sustainable finance reporting on implementation in line with consistent reporting instructions/templates. In March 2022, with the support of IFC, Mongolia launched the National Roadmap for Sustainable Financing.

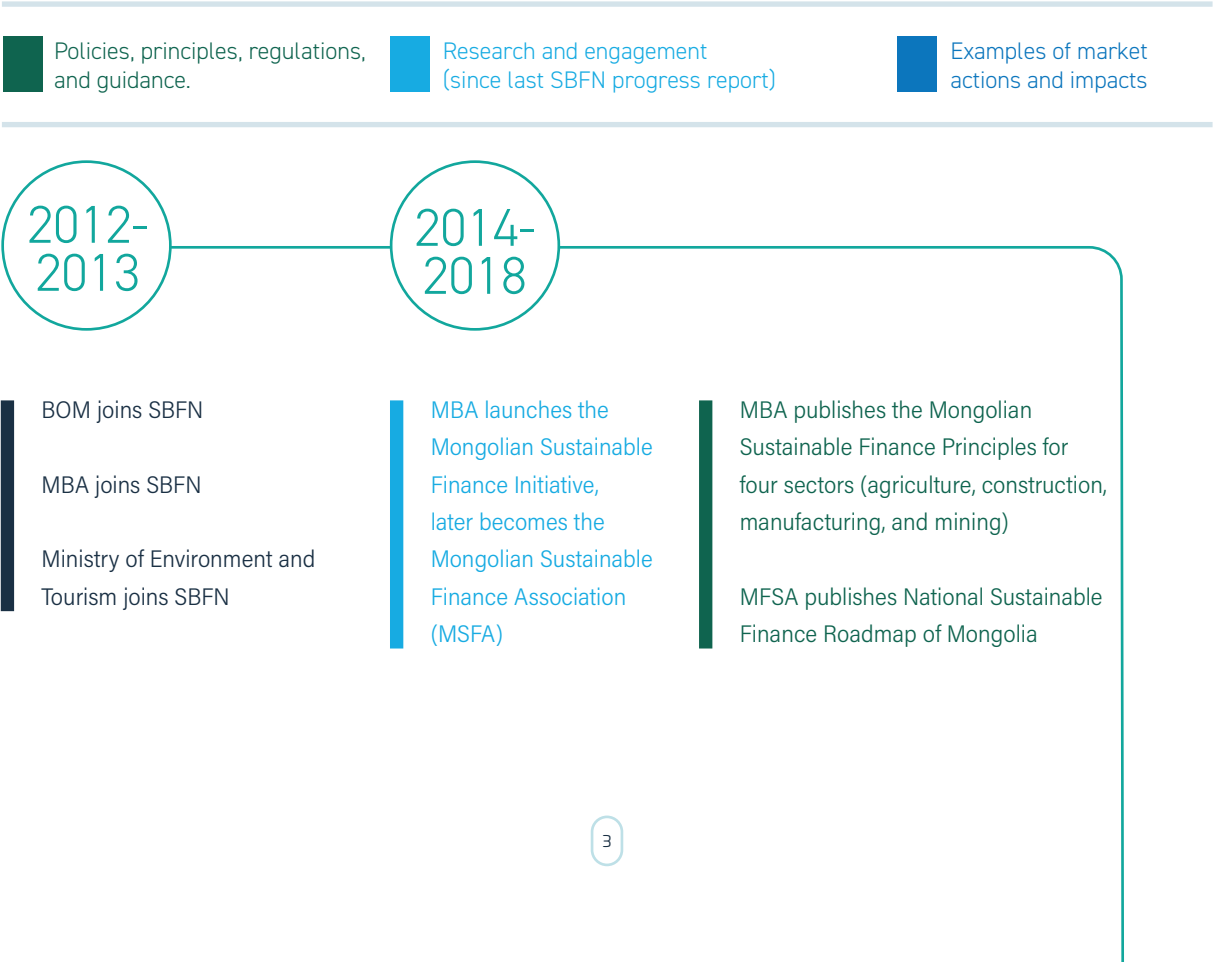
¹ A national sustainable finance framework can comprise policies, roadmaps, guidance, regulations, and/or voluntary principles issued by national regulators or industry associations in relation to each pillar of sustainable finance in the SBFN Measurement Methodology. National frameworks for sustainable finance vary from country to country and are influenced by national priorities and characteristics.

Figure 1: SBFN Progression Matrix - Overall Country Progress



1.4 Country sustainable finance journey

Figure 2: Mongolia’s sustainable finance journey



2021

- 11 banks have established internal environmental, social, and governance (ESG) structures and/or policies
- \$1,499 million credits/loans issued have gone through ESG / environmental and social (E&S) screening
- One bank has assets aligned with Task force on Climate-related Financial Disclosures (TCFD) reporting
- FRC issues Green Bond and Registration Regulation as part of the newly approved Company Debt Instrument Registration Regulation

2020

- MSFA joins SBFN
- BOM releases Green Loan Statistics online database
- As of Q2 2020, Mongolia's banking sector green loan portfolio is around \$140 million, which is classified based on the Green Taxonomy

2019

- Central Bank of Mongolia publishes monetary policy, which includes specific objectives to further support the implementation of the sustainable finance framework in the financial sector
- MSFA publishes Mongolia Green Taxonomy
- MBA publishes a fifth sector guideline for the textile sector

2022

- Mongolia launches the National Roadmap for Sustainable Financing

1.5 COVID response

In March 2020, BOM reduced the policy rate by 100 basis points to 10 percent, and reduced the Mongolian tugrug (MNT) reserve requirement of banks by 200 basis points to 8.5 percent. The lower reserve requirement released 324 billion MNT (0.8 percent of GDP) of additional liquidity in the banking system. BOM and the Financial Regulatory Commission (FRC) implemented temporary financial forbearance measures on prudential requirements, loan classifications, and restructuring standards. In April 2020, BOM elected to allow existing consumption loan borrowers to defer their principal and interest payments by up to 12 months.

1.6 Ambitions for the next phase

The Mongolian Sustainable Finance Association (MSFA) is working with the BOM on developing more policy incentives for green financing, but there is a need to better understand what the best practices are, such as those involving prudential requirements and capital requirements (as practiced by China). There is currently a dedicated working group addressing this issue. MSFA is working with the Stock Exchange to introduce ESG and sustainability reporting rules for listed companies. Broadly speaking, MSFA is working on creating a more robust national sustainable finance policy environment, supported by a stand-alone national sustainable finance strategy. Together with this strategy, the aim is to develop a governance platform to provide multi-stakeholder oversight and guidance.

1.7 SBFN and IFC role

IFC has provided advisory services to MSFA, the Ministry of Environment and Tourism, BOM, and the MBA for their sustainable finance initiatives and capacity building, in partnership with the government of Mongolia. The IFC Green Finance Market Development Project focuses on green bonds, ESG framework development for NBFIs and the capital market, and climate risk assessment. Through SBFN, MSFA, the Ministry of Environment and Tourism, BOM and the MBA have shared their experiences with other SBFN members and benefited from the collective SBFN knowledge base.



Mongolia has been a very active member of the SBFN since its establishment. Joining the network has enabled and accelerated the country's sustainable finance development. SBFN's progress reports are a useful tool for the country to engage a wide range of stakeholders and look back at both the recent achievements and challenges the country has faced in terms of developing sustainable finance. Now, sustainable finance is snowballing in the region, and there is a lot of commitment from local stakeholders – not only banks, but also policymakers and market developers.



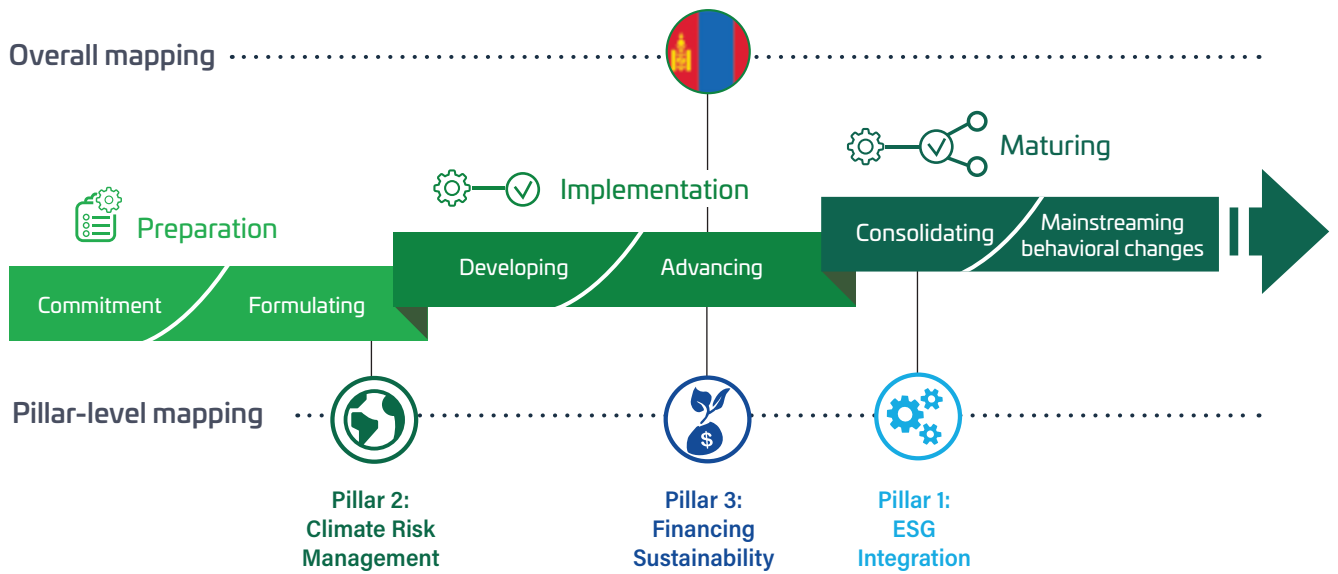
Ms. Nomindari Enkhtur
CEO

Mongolian Sustainable Finance Association (MSFA)



2. Progress by three pillars

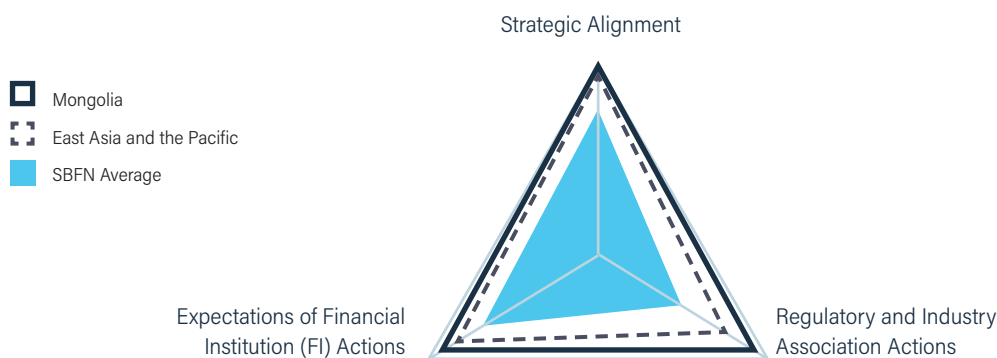
Figure 3: Mapping of overall country progress and individual pillar progress



Pillar 1: ESG Integration

Pillar Progress: Consolidating

Mongolia is mapped under the **“Consolidating” sub-stage of the “Maturing” stage** for the ESG Integration Pillar. Its national framework extends beyond the banking sector and promotes ESG integration across the financial sector ecosystem. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and consistent and comparable data is available about FIs’ ESG implementation.



Sub-pillar 1: Strategic Alignment

- Mongolia’s national frameworks for the banking sector and non-banking sector, for example the National Financial Market Development Program 2025 (Ministry of Finance, BOM, FRC, 2017), and the National Sustainable

Finance Roadmap of Mongolia (MSFA, 2018), set out expectations for integrating the consideration of ESG risks and performance.

- Mongolia’s approach to ESG integration in the financial sector is aligned with international good practices and

standards, such as the UN Sustainable Development Goals, IFC Performance Standards, IFC EHS Guidelines, the Equator Principles, and Global Reporting Initiative Guidelines.

- The framework was developed and implemented in close consultation with stakeholders. Several steering committees have been formed to promote multi-stakeholder engagement, including the Mongolia Green Finance Corporation's Steering Committee, National Committee on Gender Equality, and the Biodiversity Finance Initiative Steering Committee.
- IFC signed a memorandum of understanding with the FRC to collaborate on the implementation of the National Financial Market Development Program 2015. Among other things, this collaboration focuses on developing the ESG frameworks for the NBF and capital market operations.

Sub-pillar 2: Regulatory and Industry Association Actions

- Mongolia's sustainable finance framework is supported with implementation guidance and technical tools including the Mongolian Sustainable Finance Principles Guidelines Notes, five Sector Guidelines (agriculture, construction and infrastructure, manufacturing, mining, and textile), the MSFA sustainable finance e-learning platform, and MSFA training-of-trainers (ToT) curriculum.
- The implementation of the framework is regularly monitored by BOM and MSFA, and is supported by a data collection approach.
- MSFA's FI performance assessment tool is a comprehensive tool consisting of eight sections and

more than 60 questions. The tool was updated in 2020 to include climate, gender, and green finance related indicators.

- The government of Mongolia launched the Reform and Development Program of the Financial Market until 2025 in two phases: 2018-2020, and 2021-2025.
- In May 2021, MSFA and the Mongolian Stock Exchange (MSE) signed an MOU on the Promotion of Sustainable Capital Market Development. MSFA and MSE will work together to develop ESG reporting standards and guidance, conduct market capacity building, and promote responsible investment and sustainable business practices, with the ultimate goal of developing sustainable and green capital markets.
- BOM and MSFA jointly organized the "Best ToC Bank" competition, which selected a bank with the best sustainable financing practices and environmentally friendly officer, in the framework of the "Banking Development-95 years" campaign.

Sub-pillar 3: Expectations for FI Actions

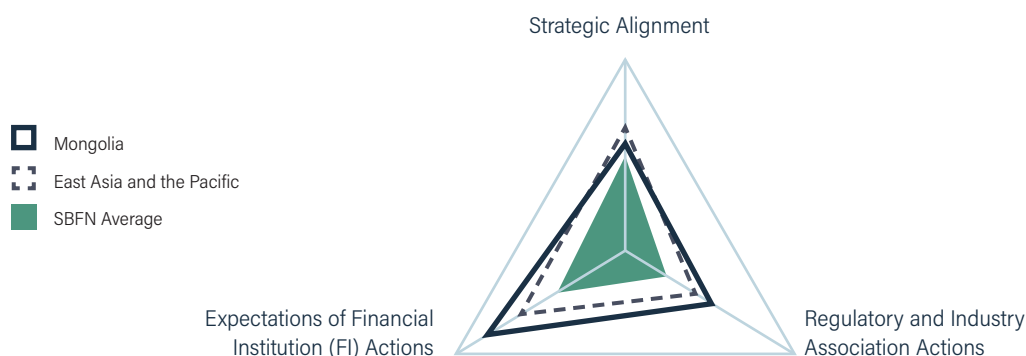
- The National Financial Market Development Program 2025 requires FIs to develop policies and procedures to manage ESG risks and performance, monitor ESG risks, and report ESG performance publicly.
- Incentives are created for managers to reduce the ESG risk level of their portfolios based on the questions in the MSFA's annual evaluation.



Pillar 2: Climate Risk Management

Pillar Progress: Formulating

Mongolia is in the **“Formulating” sub-stage of the “Preparation” stage** of the Climate Risk Management Pillar. Mongolian Sustainable Finance Association (MSFA) has issued the National Sustainable Finance Roadmap of Mongolia that includes climate risk, and sustainable finance principles guidelines and sector guidelines that reference climate change as part of overall ESG risk management. Preparations and activities include research, surveys, and/or multi-stakeholder engagement and awareness raising on expectations for climate risk management.



Sub-pillar 1: Strategic Alignment

- Addressing climate change risks is a national priority as indicated in Mongolia's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies, including the National Action Program on Climate Change (2011–2021) and the Green Development Policy and Action Plan (2014–2030). In the financial sector, the MSFA has issued Sustainable Finance Principles Guidelines and Sector Guidelines for the management and disclosure of environment, climate, and social risk in the banking sector.

Sub-pillar 2: Regulatory and Industry Association Actions

- The National Sustainable Finance Roadmap (MSFA, 2018) highlights the country's vulnerability to climate change and the importance of climate risk management to protect the stability of the financial sector. In addition to this, the Roadmap emphasizes the role of climate risk frameworks by FIs in reducing physical risks from extreme weather events and helping unlock the potential for private finance flows towards climate adaptation. The Roadmap emphasizes the need for the ESG capacity of FIs to be enhanced, in order to understand climate and E&S risks as an integral part of credit risk, which could have adverse financial implications.

- The Mongolian Sustainable Finance Principles Guidelines (MBA, 2014) reference climate change in the introduction, and greenhouse gas (GHG) emissions and impacts on the atmosphere as part of E&S risk management in Principle 1: Protection of the Environment; it also references the IFC Performance Standards and Equator Principles. The Sector Guidelines (mining, agriculture, manufacturing, construction, and textiles) reference GHG emissions and climate considerations as part of overall ESG risk management.
- The BOM has established plans to undertake research with the support of the IFC/World Bank on the financial sector's exposure to climate-related risks as a component of the National Sustainable Finance Roadmap.
- As part of future progress by Mongolia, recommended areas of focus for regulatory and industry association actions include research, capacity building, technical guidance (for example climate scenarios and risk assessment methodologies), and development of regulatory and supervisory expectations of FIs for managing climate-related physical and transition risks and financial impacts.
- With regard to awareness raising and regulator-industry forums on ESG and climate risk, the Mongolia Green Finance Corporation Steering Committee includes

government representation, and is integrated with the financial sector through the Mongolian Sustainable Finance Association and associated working groups, including the banking sector. The MSFA is a supporter of the TCFD.

Sub-pillar 3: Expectations for FI Actions

- The MSFA, in collaboration with the BOM and IFC, conducts annual evaluations to assess banks' sustainable finance performance and implementation. In 2020, the MSFA added evaluation elements to assess climate risk

in FI lending activity, and to collect and disclose climate-related data (for example, GHG emissions at the portfolio level) as part of climate finance activities.

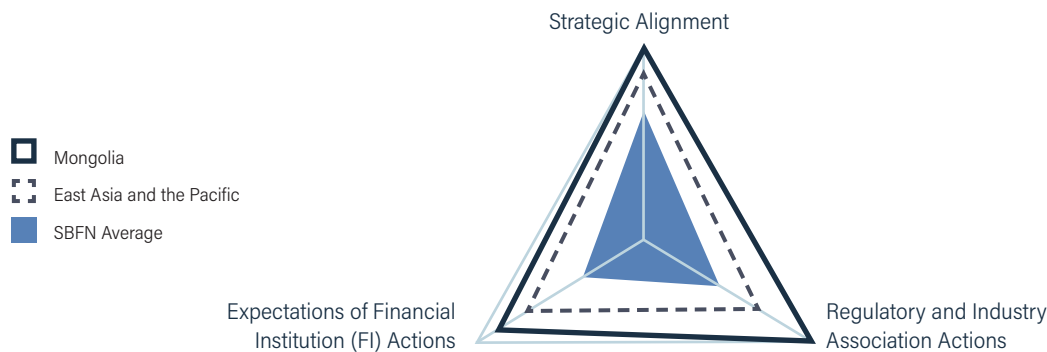
- As part of future progress, Mongolia's Sustainable Finance Principles Guidelines can be further elaborated to guide the expected actions of FIs in the development of their strategy, governance, risk management, metrics/targets, and disclosure approaches for climate-related physical and transition risks and financial impacts.



Pillar 3: Financing Sustainability

Pillar Progress: Advancing

Mongolia is mapped under the **“Advancing” sub-stage of the “Implementation” stage** for the Financing Sustainability Pillar. Its national sustainable finance framework for directing financial flows into green, social, climate, and sustainability-linked projects has implementation tools and initiatives in place, and FIs have started reporting on financial sustainability performance in line with consistent reporting instructions/templates. In 2021, the Mongolian Ministry of Finance published the Green Bond Regulation, in line with the International Capital Markets Association’s (ICMA) Green Bond Principles. In 2020, the Bank of Mongolia (BOM) established an on-line Green Loan Statistics database, publishing national green loan statistics every quarter. In 2019, facilitated by the MSFA, Mongolia published its National Green Taxonomy.



Sub-pillar 1: Strategic Alignment

- Mongolia’s national framework for financing sustainability covers both the banking sector and the broader financial ecosystem. It is led by BOM and the MSFA for the banking sector, and the Financial Regulatory Commission (FRC) and the Mongolia Stock Exchange (MSE) for the capital markets. Its key policies include the National Sustainable Finance Roadmap of Mongolia, the Mongolian Sustainable Finance Principles and Sector Guidelines, the National Green Taxonomy, ESMS Guideline in banks, and the latest Green Bond Regulation.
- The Mongolian financial sector’s approach to promoting financial flow into green and sustainability projects and sectors is in alignment with international good practices and standards, such as the UN Sustainable Development Goals, the Loan Market Association Principles for Green and Sustainability-Linked Loans, and Climate Bonds Initiative Climate Bonds Standard and Taxonomy.
- The Mongolian financial sector’s approach to financing sustainability is also aligned with its national goals and strategies, such as the Indicated National Determined Contributions and other national development targets. It identifies key stakeholders and promotes engagement, such as the MGFC’s Steering Committee consisting of the Ministry of Finance, Ministry of Environment and Tourism, National Development Agency, MSFA, MBA, and XacBank.
- BOM launched its national Green Loan Statistics online database, promoting inter-agency data sharing and

encouraging the calculation of the amount and ratio of green loans in portfolios based on the Mongolia Green Taxonomy.

- The FRC is working closely with IFC to develop a market for green bond issuance.

Sub-pillar 2: Regulatory and Industry Association Actions

- Mongolia’s national framework on financing sustainability requires the regulator or industry association to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects. For example, the MSFA Roadmap lists expected actions and next steps for multiple regulators and agencies to promote green finance in Mongolia.
- Mongolia launched its National Green Taxonomy in 2019, and provides guidelines for extending green, social or sustainability-focused loans and bonds. BOM’s Green Loan Reporting Methodology and the 2021 Green Bond Regulation require external party verification to ensure the credibility of sustainability instruments for green loans and bonds respectively.
- BOM and MSFA monitor information reported by FIs related to green, social, and/or sustainability-focused investments, lending, and other instruments to prevent greenwashing. Multiple incentives are provided to encourage green finance flows, such as the Ministry of Environment and Tourism’s interest subsidy for green loan issuance and a 20 percent down payment

subsidy offered to qualified energy efficient households by MSFA and the German Agency for International Cooperation (GIZ) Mongolia.

- BOM and MSFA routinely collect and/or publish data from FIs or other sources about the allocation of capital to green, social, and/or sustainability-focused assets, projects, or sectors, and publish data on green loan reporting, MSFA's biannual report, and MSFA annual evaluation on sustainable finance implementation.
- The Green Bond Issuance and Registration Regulation was enacted by the Financial Regulatory Commission (FRC) as part of the MOU signed between IFC and the FRC.

Sub-pillar 3: Expectations for FI Actions

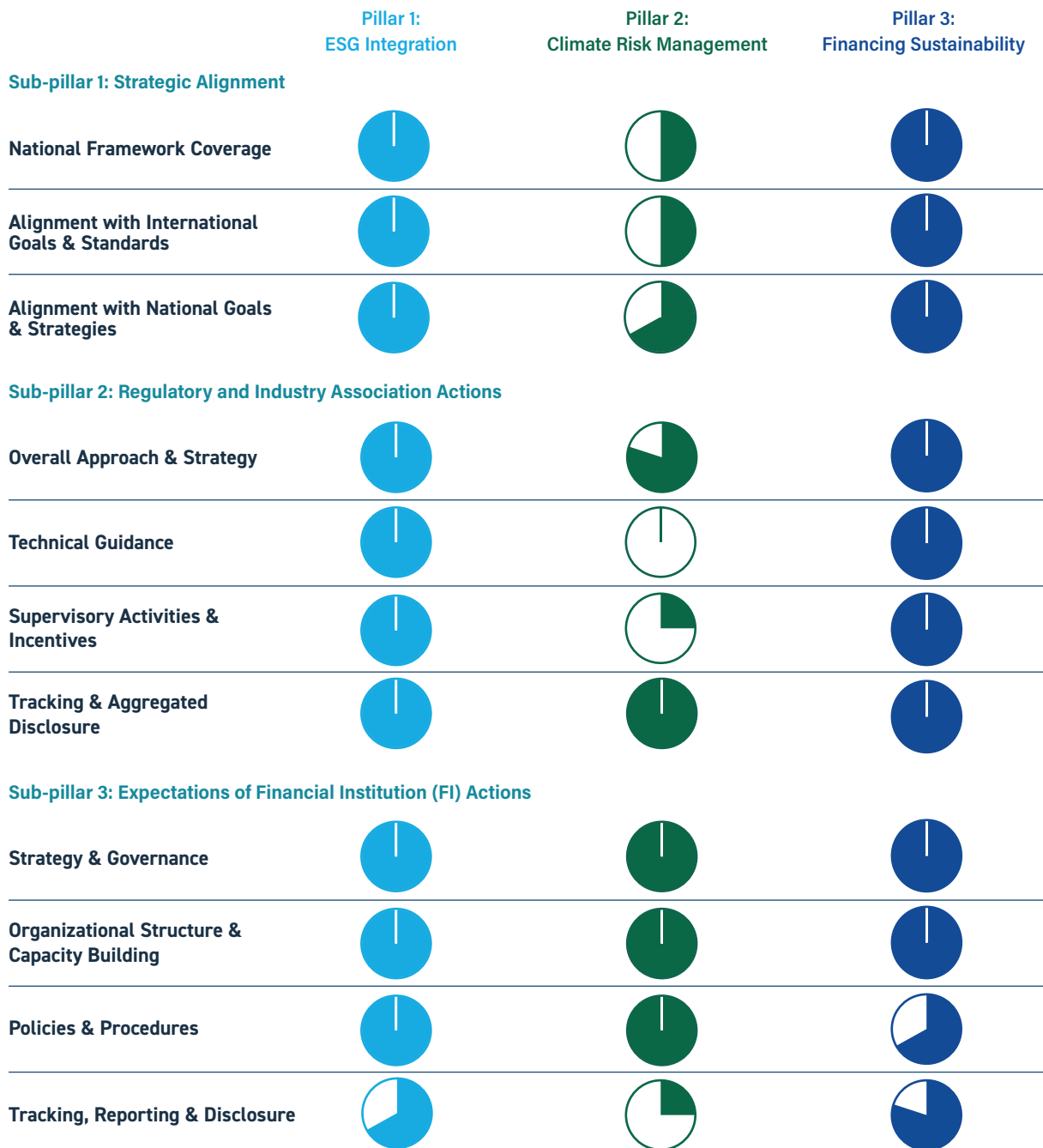
- Mongolia's national framework on financing sustainability, including MSFA's National Sustainable Finance Roadmap, asks FIs to establish a strategy, governance, or high-level targets, including at the board of directors level, for capital allocation to sustainable assets, projects, or sectors.
- The ESMS Guidelines and Sustainable Finance Roadmap also ask FIs to define internal staff roles and responsibilities to encourage finance flows to green,

social, and/or sustainability-focused investments, and to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning.

- The framework requires FIs to put in place policies and procedures for defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products. The MSFA's annual evaluation creates incentives for managers to increase sustainable loans or investments in the portfolio.
- The Green Bond Regulation requires green bond issuers to publish annual updates on the performance and impacts of sustainability instruments and to obtain and disclose independent reviews of metrics reported annually. All banks and FIs are required to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability-focused loans and to report such information publicly.

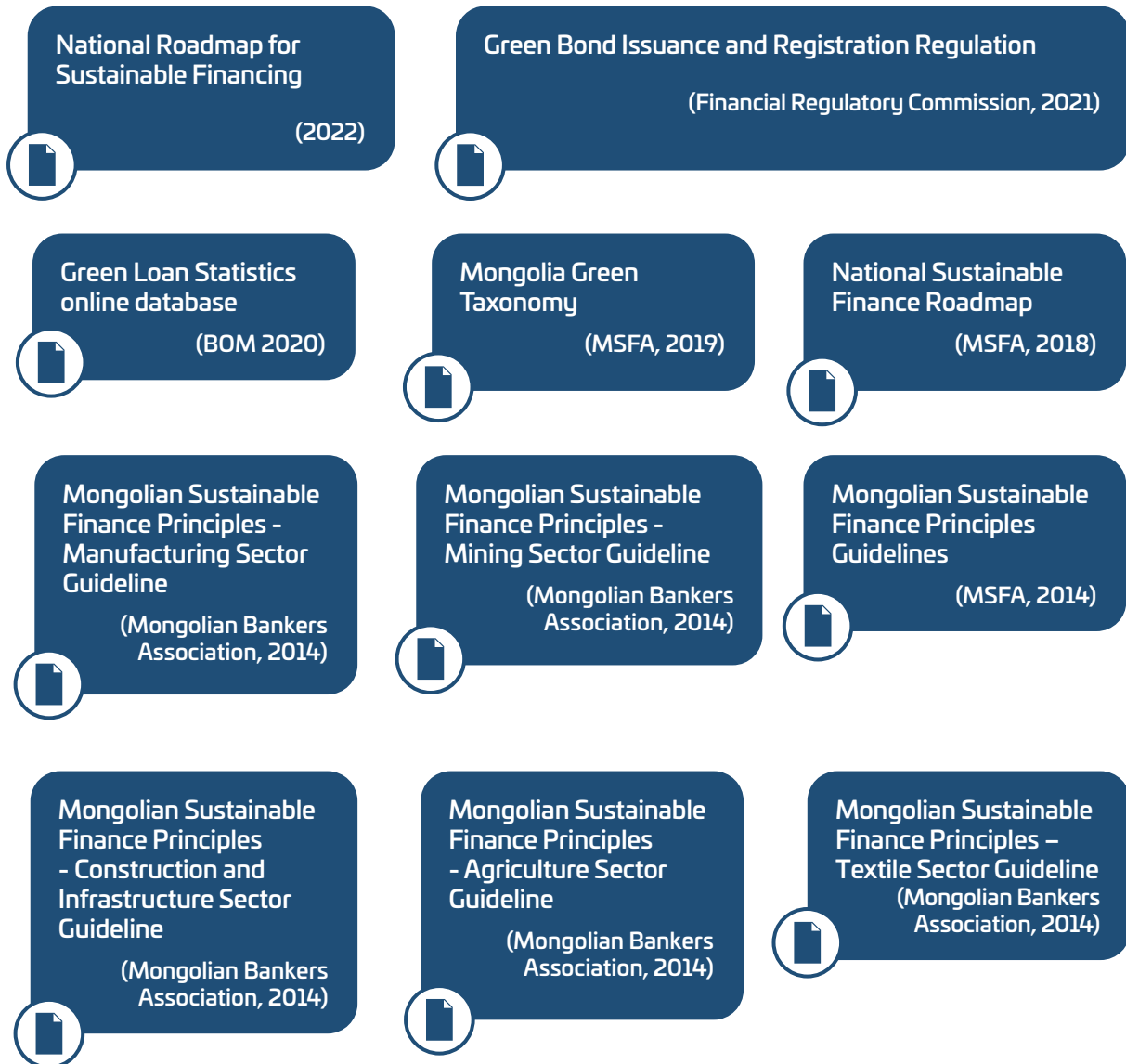
3. Progress by three sub-pillars and 11 indicators

Figure 4: Overview of Mongolia's sustainable finance coverage in three framework areas



4. Library of national sustainable finance framework documents

National strategies, roadmaps, policies, voluntary principles, regulations, guidelines, research, templates, and tools that provide an enabling framework for sustainable finance



Download framework documents and check for updates at www.sbfnetwork.org/library

5. SBFN measurement framework and methodology

About SBFN

Established in 2012, the Sustainable Banking and Finance Network (SBFN) is a unique, voluntary community of financial sector regulatory agencies and industry associations from emerging markets committed to advancing sustainable finance in line with international best practice. SBFN is facilitated by IFC as secretariat, and supported by the World Bank Group.

As of October 2021, SBFN comprised 43 member countries representing over US\$43 trillion and 86 percent of total banking assets in emerging markets. Members are committed to collectively driving measurable change.

Why a measurement framework?

In 2016, members requested a systematic comparison of country approaches to developing national sustainable finance frameworks. The SBFN Measurement Working Group was established to convene member inputs on the design of a common framework to benchmark country progress and accelerate peer-to-peer knowledge exchange. The Framework is designed to inform the biennial SBFN Global Progress Report.

An evolving framework

The SBFN Measurement Framework reflects the activities, strategies, and tools that members use to promote sustainable finance in their countries. It evolves to match advances in country initiatives. It also incorporates the latest international standards and best practices identified by members as important to their efforts.

A member-led approach

The Framework was designed with extensive member input under the leadership of the Measurement Working Group and Co-Chairs. Updates to the Framework are guided by the Measurement Working Group and agreed by all SBFN Members.

Data collection in partnership with members

As of 2021, data collection for the SBFN Global Progress Report relies on member country reporting in line with the updated Measurement Framework. Information is supported by evidence, which is verified by the SBFN secretariat in collaboration with third-party service providers. Evaluation and milestones are objective and transparent. Members approve the final Global and Country Progress Reports.

The Framework can be used as:



a **mapping tool** to capture the dynamic interaction of collective insights, market-based actions, and policy leadership demonstrated by SBFN members as they move their financial markets toward sustainability;



a **benchmarking tool** for SBFN members to learn from and compare peer approaches, track and review progress against global benchmarks, develop common concepts and definitions, and leverage innovations and strengths; and



a **forward planning and capacity building tool** to identify future policy pathways and capacity building needs.

The Measurement Framework is based on three intersecting themes in sustainable finance. For each theme, it assesses regulatory guidance, supervision strategies, disclosure requirements, and voluntary industry approaches.



ESG Integration refers to the management of environmental, social, and governance (ESG) risks in the governance, operations, lending, and investment activities of financial institutions.



Climate Risk Management refers to new governance, risk management, and disclosure practices that financial institutions can use to mitigate and adapt to climate change.



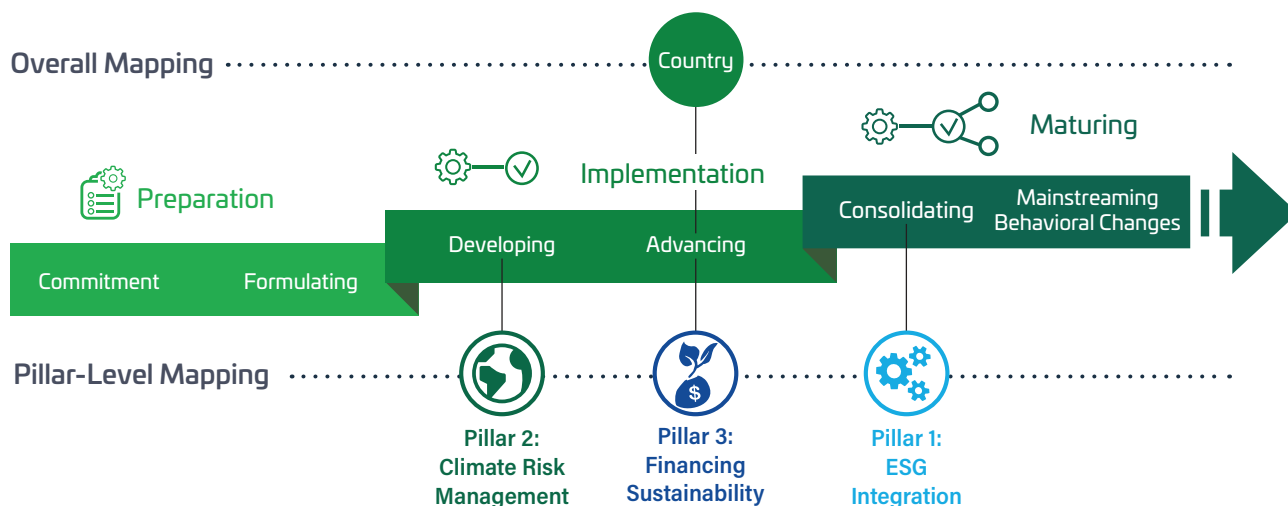
Financing Sustainability refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance, taxonomies, monitoring, and incentives.

The Measurement Framework consists of three complementary components:

1. Progression matrices

Drawing on SBFN members' common development paths and milestones, the **SBFN Progression Matrix** provides an overview of market-wide progress for all SBFN countries across three typical stages of development. It allows each SBFN member to review its own progress and identify the strengths and weaknesses of its approach.

The stage mapping is based on qualitative milestones and quantitative analysis related to (i) progress in developing and implementing national policies and principles, and (ii) industry uptake and practices. In the 2021 report, in addition to the Overall Progression Matrix, three pillar-level matrices are added to reflect a country's development process in each of the pillar areas.



2. Pillar benchmarking

A dynamic assessment is conducted across several priority pillars of sustainable finance, using qualitative and quantitative datapoints to assess progress and allow comparison across countries. Three pillars, three cross-cutting sub-pillars, 11 cross-cutting indicators, and 75 underlying datapoints are used to objectively assess a country's sustainable finance framework(s), according to clarity, depth, and alignment to international good practice.



Sub-pillar 1: Strategic Alignment

Sub-pillar 2: Regulatory and Industry Association Actions

Sub-pillar 3: Expectations of Financial Institution (FI) Actions

Pillar 1: ESG Integration	Pillar 2: Climate Risk Management	Pillar 3: Financing Sustainability
<ul style="list-style-type: none"> National framework Alignment with international goals and standards Alignment with national goals and strategies 	<ul style="list-style-type: none"> Overall approach and strategy Technical guidance Supervisory activities and incentives Tracking and aggregated disclosure 	<ul style="list-style-type: none"> Strategy and governance Organizational structure and capacity Policies and procedures Tracking, reporting, and disclosure

3. Sector data and case studies

In 2021, data collection included an exploratory request for quantitative data points — where available — for the number and percentage of financial institutions that are implementing ESG integration as well as climate risk management and disclosure; and the total value of green, social, and sustainability bond issuance. Detailed case studies were also collected of innovative approaches by regulators and industry. Case studies will be published in a new on-line case study catalogue.



SBFN on-line case study catalogue
Coming soon

SBFN Measurement Framework pillars, sub-pillars, indicators, and underlying datapoints

Pillar 1: ESG Integration			
Sub-pillar	Indicator	No.	Underlying datapoint
Strategic Alignment	National framework ¹ (e.g. policies, roadmaps, guidance, regulations, voluntary principles, templates, or tools)	1	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of environmental, social, and governance (ESG) risks and performance?
		2	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance or other non-lending FIs that sets out expectations for integrating the consideration of ESG risks and performance?
	Alignment with international goals and standards	3	Does the Framework make reference to international sustainable development frameworks or goals?
		4	Does the Framework make reference to established international ESG risk management standards and principles for FIs?
	Alignment with national goals and strategies	5	Does the Framework make reference to specific national development objectives, plans, policies, goals, or targets?
		6	Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design and/or implementation related to ESG integration?
		7	Does any inter-agency data sharing currently exist related to ESG integration by FIs?
Regulatory and Industry Association Actions	Overall approach and strategy	8	Does the Framework provide guidance on the role of the regulator or industry association with regard to assessing and managing ESG risk and performance in the financial sector?
		9	Has the regulator or industry association undertaken market assessment to identify systemic ESG risks through analysis of the portfolios of supervised entities/members and published the results?
	Technical guidance	10	Does the Framework provide technical guidance or tools to support implementation of ESG risk and performance management by the financial sector?
	Supervision activities and incentives	11	Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association?
		12	Does the regulator or industry association provide any financial or non-financial incentives for FIs to manage ESG performance as part of the Framework?
		13	Does the regulator or industry association apply any disincentives/penalties for non-compliance by FIs in terms of expectations from the regulator and/or industry association related to ESG risk management as part of the Framework?
	Tracking and aggregated disclosure	14	Has the regulator or industry association established a data collection approach and database to track or regularly publish data related to ESG integration by FIs as part of the Framework?
Expectations of FI Actions	Strategy and governance	15	Does the Framework require/ask the FI's board of directors (or highest governing body) to approve an ESRM and/or ESG integration strategy, and to supervise its implementation?
	Organizational structure and capacity	16	Does the Framework require/ask FIs to allocate resources/budget commensurate with portfolio ESG risks and define roles and responsibilities for ESG integration within the organization?
		17	Does the Framework require/ask FIs to develop and maintain the ESG expertise and capacity of staff commensurate with portfolio ESG risks through regular training and learning?
		18	Does the Framework require/ask FIs to create incentives for managers to reduce the ESG risk-level of the portfolio over a specified timeframe?
	Policies and procedures	19	Does the Framework require/ask FIs to develop policies and procedures to identify, classify, measure, monitor, and manage ESG risks and performance throughout the financing cycle at the client level and/or the transaction/project level?
		20	Does the Framework require/ask FIs to undertake a regular review and monitoring of ESG risk exposure at aggregate portfolio level?
		21	Does the Framework require/ask FIs to establish and maintain an external inquiry/complaints/grievance mechanism for interested and affected stakeholders in relation to ESG practices?
	Tracking, reporting, and disclosure	22	Does the Framework require/ask FIs to report ESG risks and performance to the regulator or industry association?
		23	Does the Framework require/ask FIs to report on ESG integration publicly?
		24	Does the Framework require/ask FIs to track credit risk (e.g. loan defaults) and/or financial returns in relation to ESG risk level?
Pillar 2: Climate Risk Management			
Strategic Alignment	National framework	25	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy?
		26	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration and management of climate risks and their impact in the national economy?
	Alignment with international goals and standards	27	Does the Framework make reference to international agreements or frameworks to address climate?
		28	Does the Framework recognize or align with established regional or international good practice for climate risk management and disclosure by FIs?
	Alignment with national goals and strategies	29	Has the regulator or industry association aligned the Framework with national goals to address climate change in line with the country's Nationally Determined Contributions (NDCs) to the Paris Agreement?
		30	Does any cooperation exist between agencies, or between government and industry association, with respect to policy design or implementation related to climate risk management?
		31	Does any inter-agency data sharing currently exist related to climate risk management by FIs?

¹ **National framework** refers to the collective set of policies, roadmaps, guidance, regulations, and/or voluntary principles issued by national regulators or industry associations in relation to each pillar of sustainable finance. SBFN recognizes that national frameworks for sustainable finance vary from country to country and are influenced by national priorities and characteristics. They are also often interdependent with other national roadmaps, policies, and regulations. Countries vary in their starting points and the types of documents to kickstart the enabling framework. For instance, initial frameworks could choose to focus on ESG risk management and/or sustainable finance opportunities such as green bonds. They could also focus on banking, capital markets, or institutional investors. The variety of SBFN frameworks provides a rich source of inspiration for peer learning and collaboration.

Regulatory and Industry Association Actions	Overall approach and strategy	32	Has the regulator or industry association undertaken research on historical impacts to the economy and financial sector from climate change, and/or future expected impacts resulting from physical and transition climate risks?
		33	Does the Framework identify key sources of GHG emissions – such as in particular sectors – as priorities in the proactive management of climate risks by the financial sector?
		34	Does the Framework incorporate the conservation/restoration of natural carbon sinks (such as oceans, forests, mangroves, grasslands, and soils) as an important part of reducing climate change risks (e.g., through guidelines, scenario analysis, targets, or incentives for FIs)?
		35	Has the regulator or industry association developed an internal strategy to address climate risk, and/or embedded climate risk management into its governance, organizational structures, and budget as part of the Framework?
		36	Has the regulator or industry association undertaken any activities to expand and deepen analytical understanding of national and/or cross-border physical and transition climate risks, and to raise awareness as to how these risks may transmit to, and impact, the financial sector?
Regulatory and Industry Association Actions	Technical guidance	37	Has the regulator or industry association developed risk assessment approaches, methodologies, or tools to understand and assess the financial sector's exposure to climate risk as part of the Framework?
	Supervisory activities and incentives	38	As part of the Framework, has the regulator clarified supervisory expectations with regard to climate risk management by FIs, including consideration of international good practices?
		39	Has the regulator started to explicitly embed climate-related risk in supervisory activities and review processes as part of the Framework?
		40	Is the implementation of the Framework regularly monitored and/or information regularly collected from FIs by the regulator and/or industry association?
	41	Are there any financial or non-financial incentives to encourage FIs to establish climate risk management systems?	
Tracking and aggregated disclosure	42	Does the regulator or industry association regularly collect and/or report market-level and/or FI-level data on climate-related financial sector risks as part of the Framework?	
Expectations of FI Actions	Strategy and governance	43	Does the Framework require/ask FIs to establish a strategy for climate risk management with responsibility at the board of director level (or highest governing body)?
	Organizational structure and capacity	44	Does the Framework require/ask FIs to define the roles and responsibilities and related capacities of the FI's senior management and operational staff in identifying, assessing, and managing climate-related financial risks and opportunities?
	Policies and procedures	45	Does the Framework require/ask FIs to expand existing risk management processes to identify, measure, monitor, and manage/mitigate financial risks from climate change?
	Tracking, reporting, and disclosure	46	Does the Framework require/ask FIs to report on their overall approaches to climate risk management in line with international good practices (e.g. TCFD), or establish a timeline by which FIs should begin to align their reporting with such practices?
		47	Does the Framework require/ask FIs to identify, measure, and report on exposure to sectors which are vulnerable to transition risk and physical risk?
		48	Does the Framework require/ask FIs to adopt and report on performance targets to reduce portfolio greenhouse gas (GHG) emissions on a regular basis?
		49	Does the Framework require/ask FIs to adopt and report on performance targets to reduce exposure to climate change risks at the portfolio level on a regular basis?

Pillar 3: Financing Sustainability

Strategic Alignment	National framework	50	Has the regulator or industry association published a national framework ("Framework") for the banking sector that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy?
		51	Has the relevant regulator or industry association published a Framework for capital markets, investment, insurance, or other non-lending FIs that sets out expectations for integrating the consideration of instruments, goals, and standards for financing sustainability, including requirements for ensuring credibility and managing and measuring resulting impacts in the national economy?
	Alignment with international goals and standards	52	Has the regulator or industry association developed a strategy, regulations, or set of frameworks for stimulating the allocation of capital to sustainable assets, projects, and related sectors in line with global goals, such as the Sustainable Development Goals (SDGs)?
		53	Does the Framework recognize and/or align with existing standards, voluntary principles, or market good practices related to sustainable finance instruments?
	Alignment with national goals and strategies	54	Does the Framework enable the achievement of stated national objectives by guiding capital to sectors, assets, and projects that have environmental and social benefits in line with national sustainable development priorities, strategies, targets, and the size of sustainable investment needs, and taking into account the local barriers to scaling-up sustainable finance?
		55	Does any cooperation exist between agencies or between the regulator and industry association with respect to policy design or implementation related to sustainable finance flows?
56		Does any inter-agency data sharing currently exist related to stimulating and monitoring sustainable finance flows?	
Regulatory and Industry Association Actions	Overall approach and strategy	57	Does the Framework require/ask the regulator or industry association to establish mechanisms to identify and encourage the allocation of capital to sustainable sectors, assets, and projects?
	Technical guidance	58	Does the Framework provide definitions, examples, and/or a taxonomy (catalogue and guidelines) of sustainable finance assets?
		59	Does the Framework provide guidelines for extending green, social, or sustainability-focused loans (excluding bonds)?
		60	Does the Framework provide guidelines for issuance of green, social, or sustainability bonds?
		61	Does the Framework require/ask for external party verification to ensure the credibility of sustainability instruments?
	Supervisory activities and incentives	62	Does the regulator or industry association monitor information reported by FIs related to green/social/sustainability investment, lending, and other instruments to prevent greenwashing and social-washing?
		63	Are there any financial or non-financial incentives for FIs to develop and grow green, social, or sustainability finance instruments?
	Tracking and aggregated disclosure	64	Does the regulator or industry association collect and/or publish data from FIs or other sources about allocation of capital to green/social/sustainability assets, projects, or sectors?

Expectations of FI Actions	Strategy and governance	65	Does the Framework require/ask FIs to establish a strategy, governance, or high-level targets, including at the Board of Directors level, for capital allocation to sustainable assets, projects, or sectors?
	Organizational structure and capacity building	66	Does the Framework require/ask FIs to define internal staff roles and responsibilities to encourage finance flows to green, social, and/or sustainability-focused investments?
		67	Does the Framework require/ask FIs to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning?
	Policies and procedures	68	Does the Framework require/ask FIs to put in place policies and procedures for defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products?
		69	Does the Framework require/ask FIs to appoint an independent external reviewer to confirm that the FI's internal framework meets the requirements of the recognized national framework and regulations, or aligns to international standards?
		70	Does the Framework require/ask that FIs create incentives for managers to increase sustainable loans or investments in the portfolio?
	Tracking, reporting, and disclosure	71	Does the Framework require/ask FIs to publish annual updates on the performance and impacts of the sustainability instruments in compliance with relevant national and/or international standards?
		72	Does the Framework require/ask FIs to obtain and disclose independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments?
		73	Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability loans?
		74	Does the Framework require/ask FIs to report to the regulator(s) or industry association(s) on green, social, and/or sustainability bonds or other positive impact investments?
		75	Does the Framework require/ask FIs to report publicly on their green, social, and sustainability-focused finance activities and positive outcomes or impacts (i.e. not only to the regulator or shareholders)?

Figure 5: Overall Progression Matrix Milestones

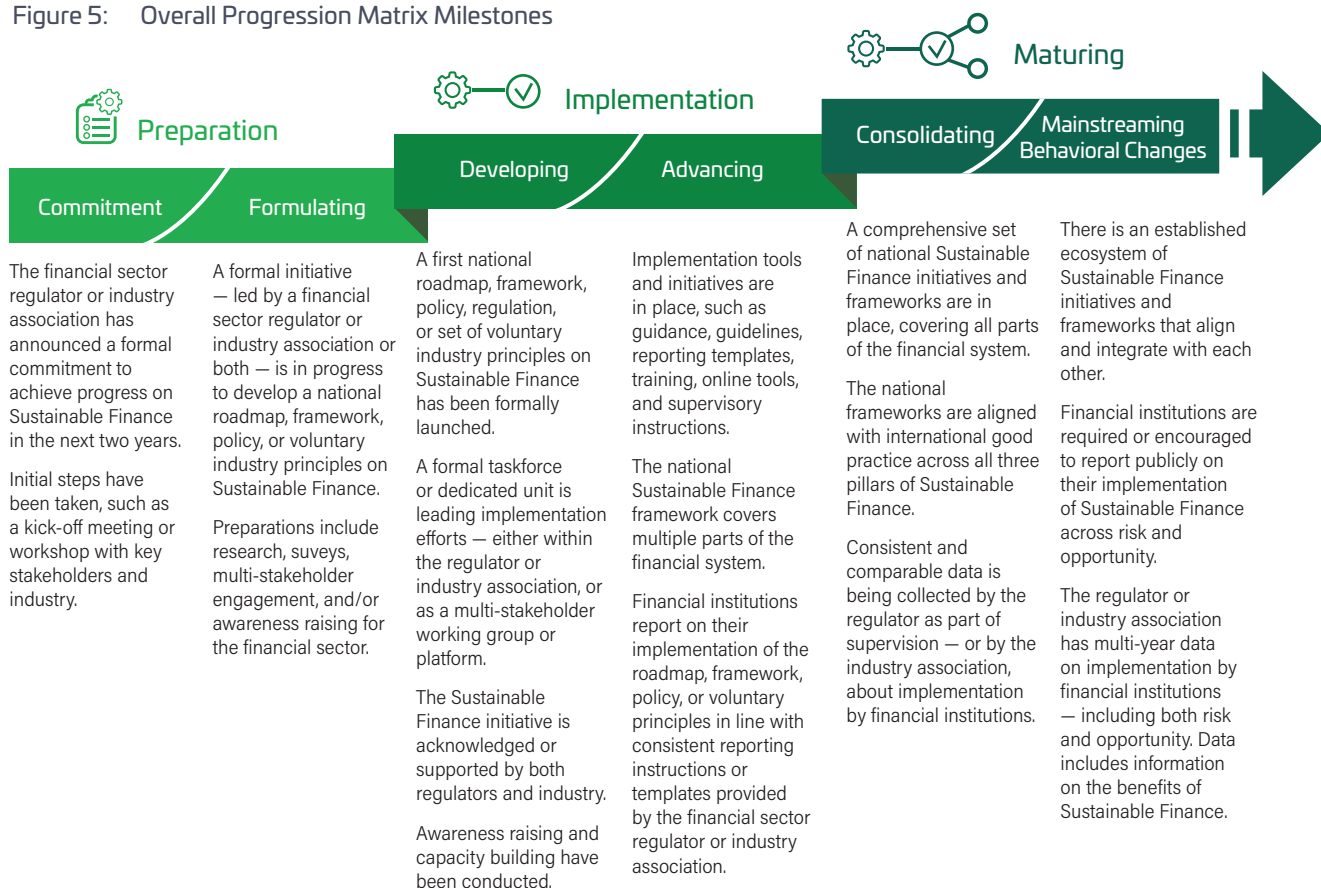


Figure 6: Progression Matrix Milestones – Pillar 1: ESG Integration

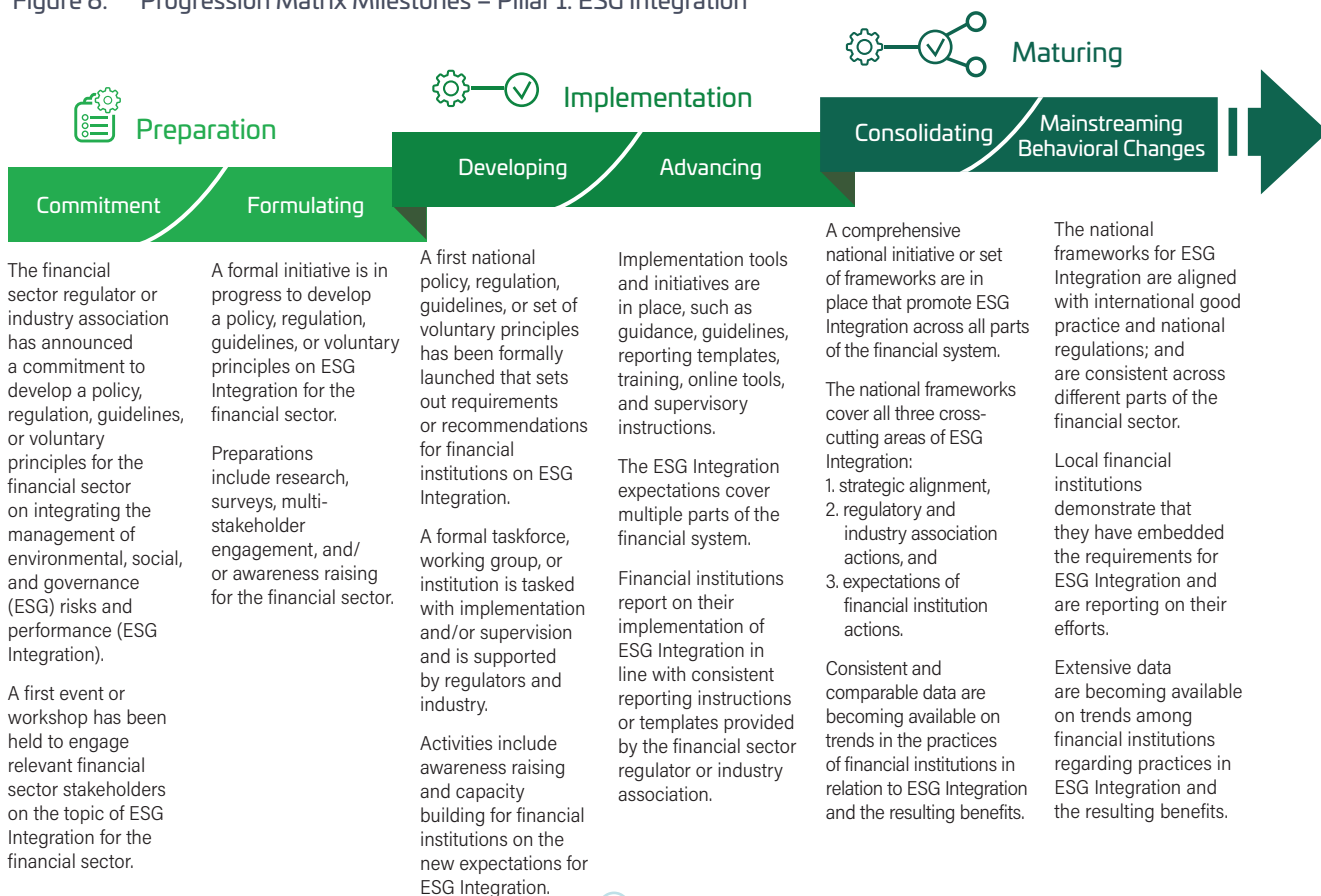


Figure 7: Progression Matrix Milestones – Pillar 2: Climate Risk Management

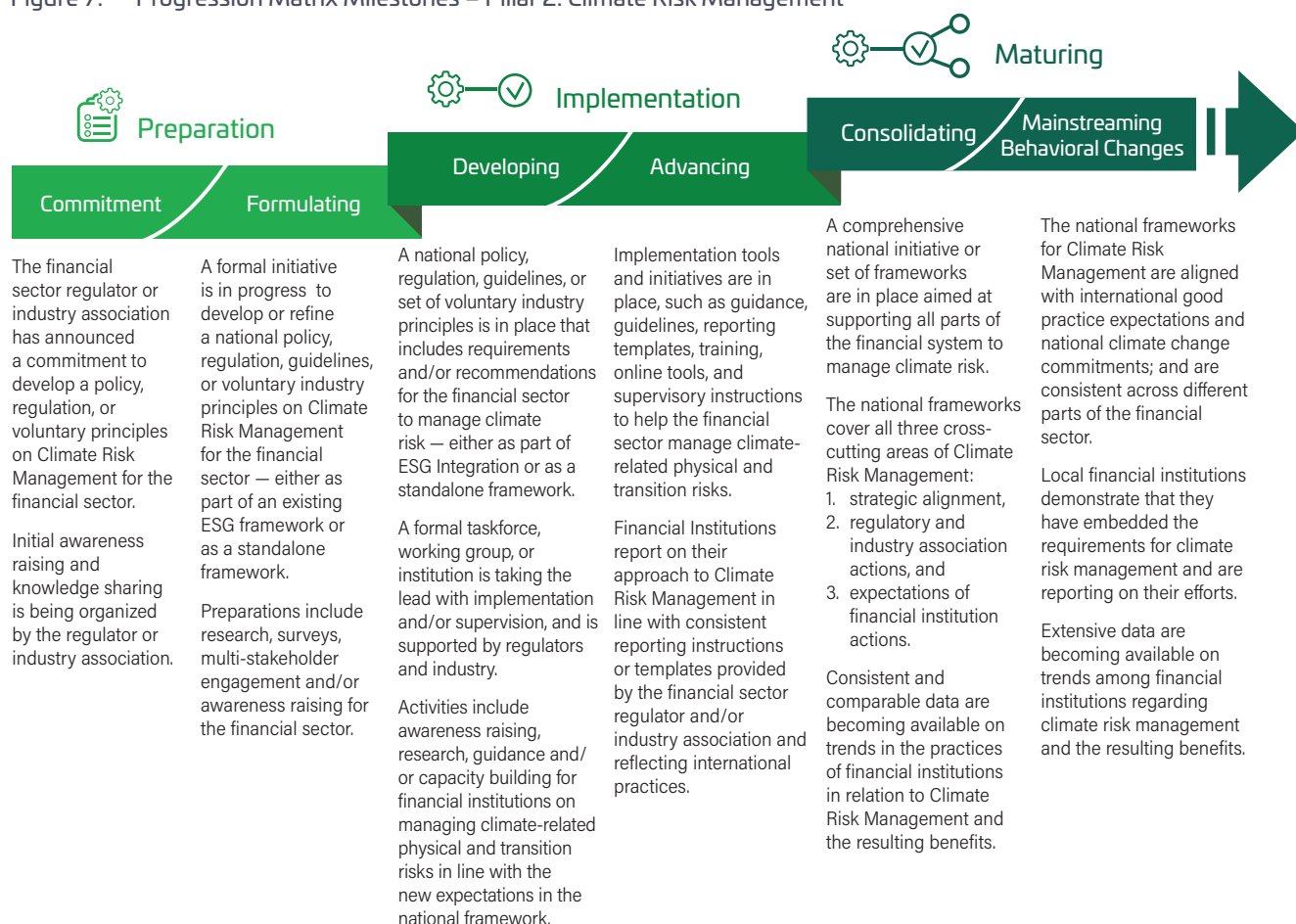
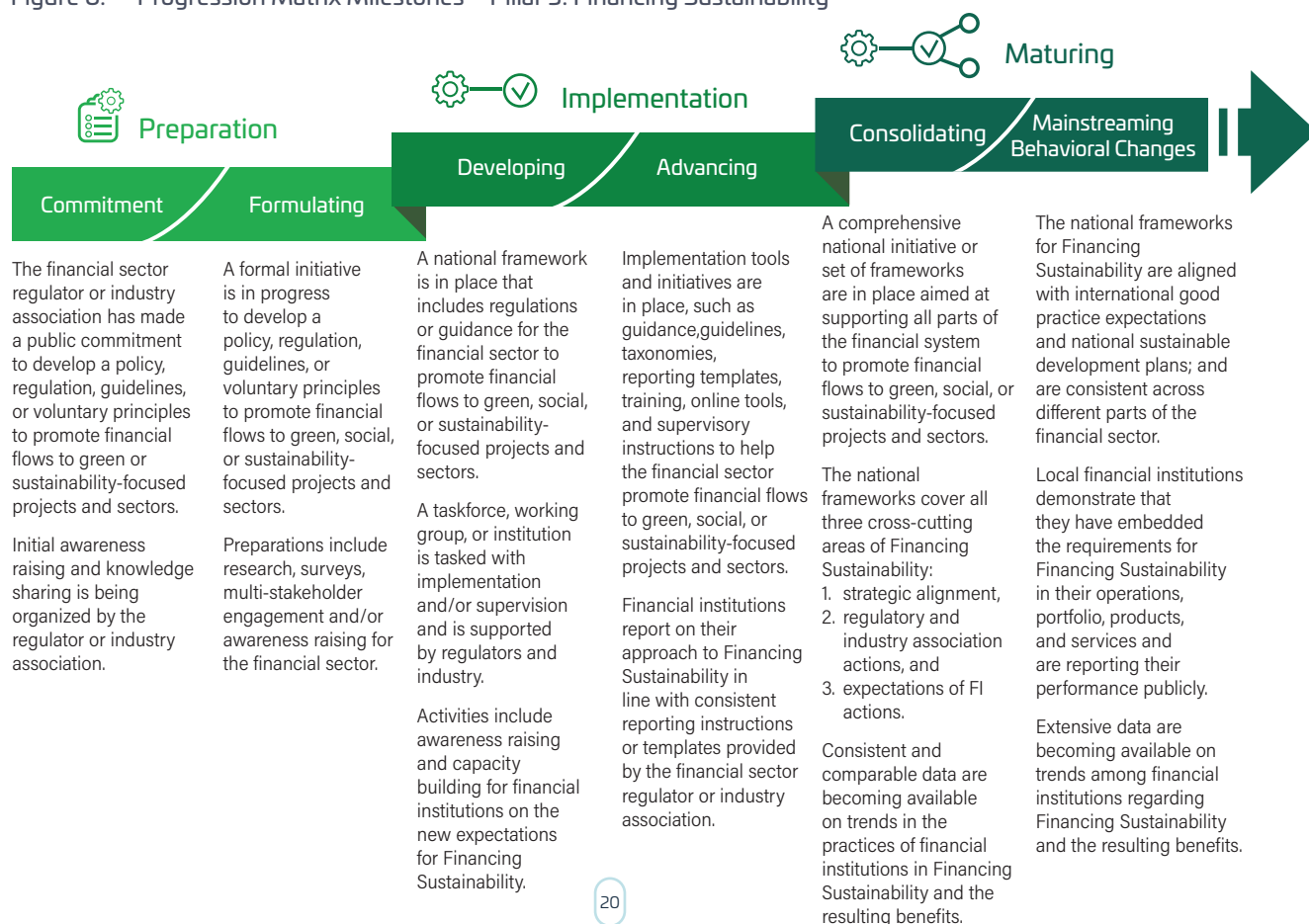


Figure 8: Progression Matrix Milestones – Pillar 3: Financing Sustainability



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