Turkey

Country Progress Report

March 2022

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

Sustainable Banking and Finance Network

IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

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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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Contents

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 – Turkey

1.1 SBFN member institution:

Banking Regulation and Supervision Agency (BDDK) Member Since: 2015

Working Groups:
Measurement
Data and Disclosure

1.2 Other key institutions and national initiatives promoting sustainable finance

Banks Association of Turkey (BAT)
Capital Markets Board of Turkey (CMB)
Ministry of Trade
Central Bank of the Republic of Turkey
Ministry of Treasury and Finance
Borsa Istanbul (BIST)

1.3 Overall progress

Turkey has **moved up to the "Advancing" sub-stage of the "Implementation" stage** from the "Developing" sub-stage of the "Implementation" stage. In 2021, BAT updated its Sustainability Guidelines for the Banking Sector, further aligning with international good practices and including climate and financial inclusion. Turkey's sustainable finance framework has been implemented for a number of years, and it has a series of tools in place, including guidance and guidelines, templates (for example reporting), training, online tools, and supervision guidance on how to do all this in practice. Also, financial institutions have started reporting on sustainable finance implementation in line with consistent reporting templates.

Figure 1: SBFN Progression Matrix - Overall Country Progress

1.4 Country sustainable finance journey

Figure 2: Turkey's sustainable finance journey

- Policies, principles, regulations, and guidance
- Research and engagement (since last SBFN progress report)
- Examples of market actions and impacts

2014-2015

Banks Association of Turkey (BAT) issues Sustainability Guidelines for the Banking Sector

Banking Regulation and Supervision Agency (BDDK) joins SBFN

2018

BDDK prepares the Turkish Banking Sector Sustainability Survey & Sustainability Report

26 banks (accounting for 87 percent of the total assets in the Turkish banking sector) have established an internal sustainability environmental, social, and governance (ESG) strategy or policy adopted by the board of directors

15 banks (70 percent of the sector) report on overall climate risks and/or approach to manage climate risk

10 banks (50 percent of the sector) have undertaken environmental/climate risk-related scenario analysis and/or stress testing

4 banks (21 percent of the sector) have reporting aligned to TCFD standards

Approximately 13 percent of outstanding cash loans have gone through an environmental and social risk assessment process

2020

Capital Markets Board (CMB) issues the Sustainability Principles Compliance Framework

2021

BDDK published the Guidance on Loan Origination and Monitoring Processes which also sets out the expectations for banks regarding ESG factors and associated risks, and environmentally sustainable lending

BAT updates the Sustainability Guidelines for the Banking Sector to include climate change and financial inclusion

The Ministry of Trade publishes the Green Deal Action Plan, which foresees a roadmap for the development of sustainable finance

Presidency of Strategy and Budget, Ministry of Treasury and Finance unveils the Economic Reform Action Plan, which defines the promotion of green finance activity as a key goal

Financial Sustainability Working Group is established by the Ministry of Trade, which includes BDDK, the Ministry of Treasury and Finance, the Central Bank and the Capital Markets Board

1.5 COVID response

The Turkish government launched the 21-point Economic Stability Shield Program, worth $15.4 billion, to reduce the negative effects of the pandemic on production, employment, and markets. Several tax breaks and deferrals, as well as credit guarantees and delays in loan repayments have also been announced, along with direct aid of 1,000 Turkish lira for citizens. The Turkish Central Bank (CBRT) cut key interest rates by 100 basis points in March 2020 and provided liquidity for banks through intraday and standing overnight facilities. The CBRT has also cut foreign exchange reserve requirements by 500 basis points, freeing up close to $5.1 billion for Turkish banks.

1.6 Ambitions for the next phase

The BDDK is looking to integrate suitable tools and approaches towards improving green banking within its regulatory and supervisory framework, in line with the development of international initiatives on climate-related issues and green banking. The BDDK also aims to improve its supervisory capacity and to publish a strategy to standardize ESG practices throughout the banking sector; in time, this would move from soft guidelines to hard regulatory policy. Infrastructure for climate risk stress testing and scenario analysis at a financial institution and sector level will be developed, and the use of scoring models and on-site inspections are being considered.

1.7 SBFN and IFC role

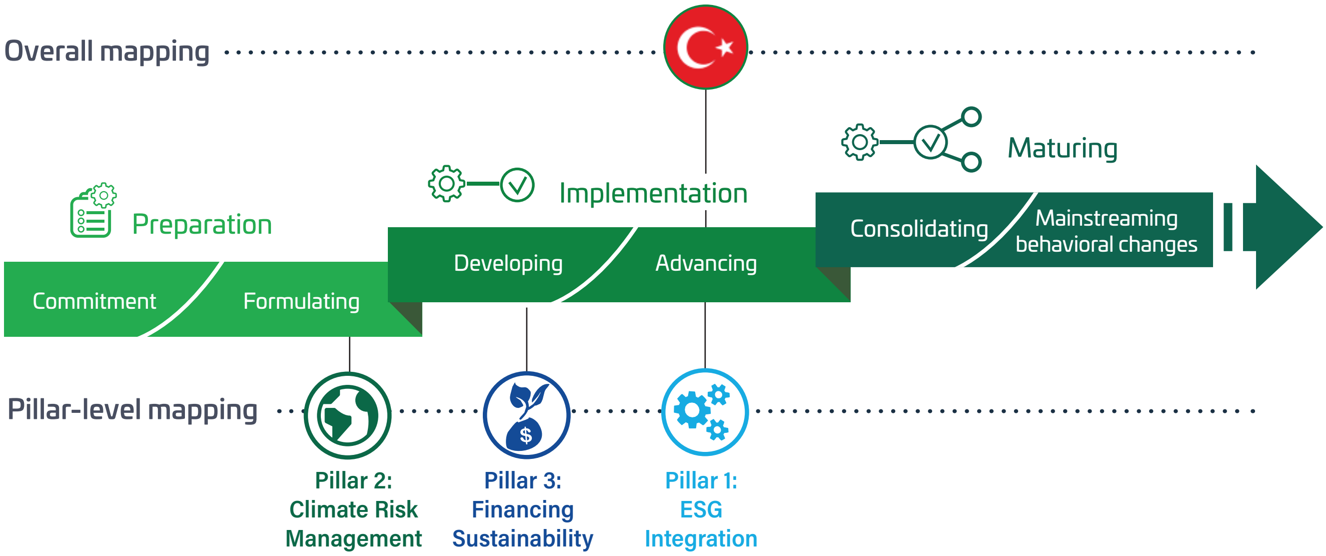
IFC has provided advisory services to Turkey and the BDDK for their sustainable finance initiatives and capacity building. Through SBFN, the BDDK has shared its experience with other SBFN members and benefited from the collective SBFN knowledge base.

> "Of course, the financial sector is expected to play a crucial role in the transition to a sustainable development path. Although the lack of a binding and comprehensive regulatory framework prevents homogeneous and full implementation of sustainability principles, a major part of the Turkish banking sector is aware of and active in green banking and sustainability issues. We think that guidance of financial authorities helps financial institutions adequately assess the risks and opportunities of sustainability related projects."

Mr. Berk Mesutoglu
Strategic Development Department, BDDK

2. Progress by three pillars

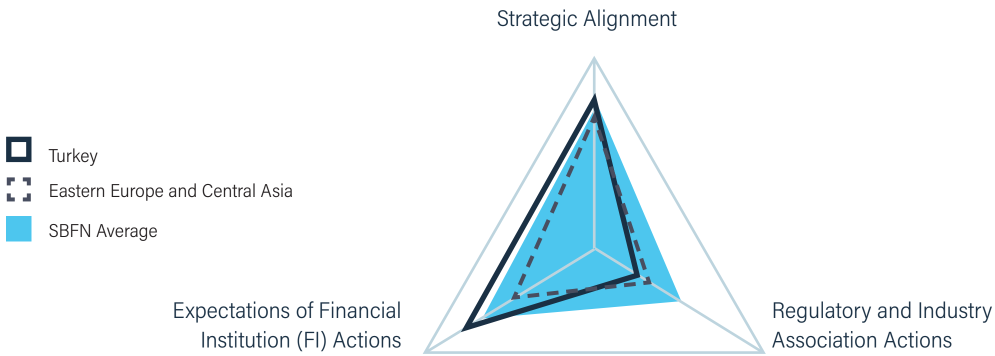
Figure 3: Mapping of overall country progress and individual pillar progress



Pillar 1: ESG Integration

Pillar Progress: Advancing

Turkey is mapped under the **"Advancing" sub-stage of the "Implementation" stage** for the ESG Integration Pillar. There is an existing national framework addressing the integration of ESG risk and performance considerations into the practices of financial institutions. In addition to ongoing activities to raise awareness and build capacity, implementation tools and initiatives are in place, and financial institutions (FIs) consistently report on their ESG implementation, instructions or templates.



Sub-pillar 1: Strategic Alignment

- Turkey's national frameworks for the banking sector and nonbanking sector, for example the Sustainability Guidelines for the Banking Sector (BAT, 2014) and their 2021 update, the Sustainability Principles Compliance Framework (CMB, 2020), and the Guidance on Loan Origination and Monitoring Processes (BDDK, 2021), set out expectations for integrating the consideration of ESG risks and performance.
- The Turkish financial sector's approach to ESG integration is in alignment with international good practices and standards, such as the Sustainable

Development Goal (SDGs), UN Global Compact, IFC Performance Standards, Equator Principles, UN Principles for Responsible Investment, and the Global Reporting Initiative.

Sub-pillar 2: Regulator and Industry Association Actions

- Turkey's sustainable finance framework is supported with implementation guidance and technical tools. The Sustainability Guidelines for the Banking Sector provide risk categorization, mitigation actions, monitoring plans, and risk assessment methods.
- In March 2021, BAT updated the Sustainability Guidelines for the Banking Sector to strengthen support for the SDGs. The updates include financial inclusion and climate-related risk management and financing.
- In March 2021, the Ministry of Treasury and Finance of Turkey unveiled the country's Economic Reform Action Plan containing several measures under 10 main titles, including the financial sector and corporate governance.
- In June 2021, BDDK published the Guidance on Loan Origination and Monitoring Processes. The Guidance sets out, among other things, the expectations from banks regarding inclusion of ESG factors and associated risks in their credit risk appetite and risk management policies and procedures.
- In July 2021, the Ministry of Trade unveiled the Green Deal Action Plan. The Plan foresees determination of a roadmap for the development of sustainable banking, preparation of a Green Bond Guide and Green Sukuk Guide, and the establishment of a national green taxonomy for sustainable investments.
- A working group was established to exchange information, and coordinate the green finance-related activities in the Green Deal Action Plan. Working group members include BDDK, the Ministry of Finance, the Central Bank of Turkey, and the Capital Markets Board of Turkey.

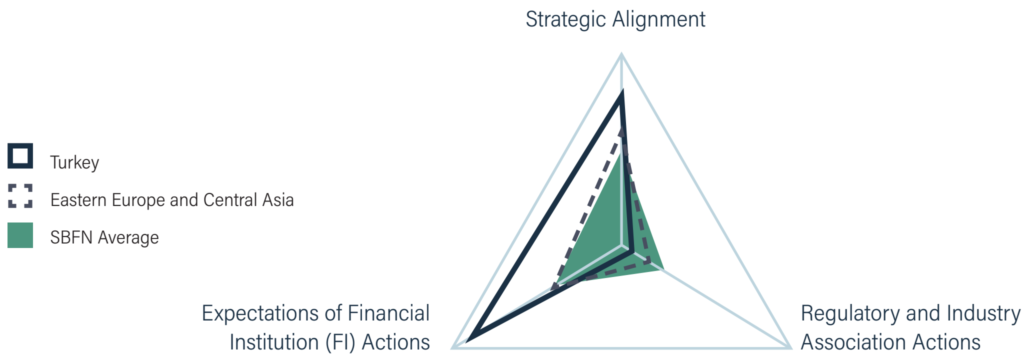
Sub-pillar 3: Expectations for FI Actions

- The Sustainability Guidelines for the Banking Sector, Sustainability Principles Compliance Framework, and the Guidance on Loan Origination and Monitoring Processes require FIs to develop policies and procedures to manage ESG risks and performance, and report ESG performance publicly.
- Banks are required to report their sustainability activities to their internal and external stakeholders at periodic and regular intervals. In all reporting to external stakeholders, preference should be given to compliance with internationally accepted standards (Global Reporting Initiative, International Integrated Reporting Council, and Conference of Parties). Banks may also structure their sustainability reporting as an element of their annual reports.

Pillar 2: Climate Risk Management

Pillar Progress: Formulating

Turkey is in the **"Formulating" sub-stage of the "Preparation" Stage** of the Climate Risk Management Pillar. The Banking Regulation and Supervision Agency (BDDK), Banks Association of Turkey, and Capital Markets Board have issued sustainability guidelines and principles on risk management for the banking sector and capital markets that include climate risk. 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 Turkey's Nationally Determined Contribution (NDC) to the Paris Agreement and national climate policies. In the financial sector, the BDDK, Banks Association of Turkey (BAT) and the Capital Markets Board (CMB) have issued sustainability guidelines for the management and disclosure of environmental, climate, and social risk in the banking sector and capital markets.

Sub-pillar 2: Regulatory and Industry Association Actions

- The BAT's updated Sustainability Guidelines for the Banking Sector (2021) address climate risk management as part of Principle 3: Climate Change Management and Climate Change Adaptation and Principle 1: Assessment and Management of E&S Risk Arising from Banking Activities. The principles are integrated, for example by including physical climate risk and related operational risk elements as part of E&S risk assessment and management over short, medium, and long-term time frames. Principle 3 includes basic guidelines regarding undertaking research, building staff capacity and governance, and developing risk assessment and disclosure approaches for climate-related physical and transition risks and financial impacts in line with the Taskforce for Climate-related Financial Disclosures (TCFD).
- The Guidance on Loan Origination and Monitoring Processes published by the BDDK in 2021 states that banks should take into account the risks associated with ESG factors on the financial conditions of borrowers, and in particular the potential impact of environmental factors and climate change, in their credit risk appetite, policies, and procedures. Banks should assess the borrower's exposure to ESG factors, in particular environmental factors and the impact on climate change, and the appropriateness of the mitigating strategies, as set out by the borrower. This analysis should be performed on a borrower basis; however, when relevant, banks may also consider performing this analysis on a portfolio basis. In order to identify borrowers that are exposed, directly or indirectly, to increased risk associated with ESG factors, banks should consider using heat maps that highlight, for example, climate-related and environmental risks of individual economic (sub-) sectors in a chart or on a scaling system. For loans or borrowers associated with a higher ESG risk, a more intensive analysis of the actual business model of the borrower is required, including a review of current and projected greenhouse gas emissions, the market environment, supervisory ESG requirements for the companies under consideration, and the likely impacts of ESG regulation on the borrower's financial position. CMB issued the Sustainability Principles

Compliance Framework as an annex to the Corporate Governance Communique, which provides principles for publicly traded firms (including currently 12 out of the 55 banks in Turkey) to report on ESG practices, including climate and references the TCFD. In addition to this, the Borsa Istanbul is a member of the UN Sustainable Stock Exchanges Initiative and has issued the Sustainability Directory for Companies which includes climate risk and references the TCFD.

- In terms of awareness raising for E&S and climate risks, the BAT collaborates with the financial sector through the Sustainability Working Group.
- As part of future progress by Turkey, recommended areas of focus for regulatory and industry association actions include awareness raising, research, capacity building, and technical guidance (for example for climate scenarios, risk assessment tools and methodologies) to build financial sector understanding of climate-related physical and transition risks and financial impacts.

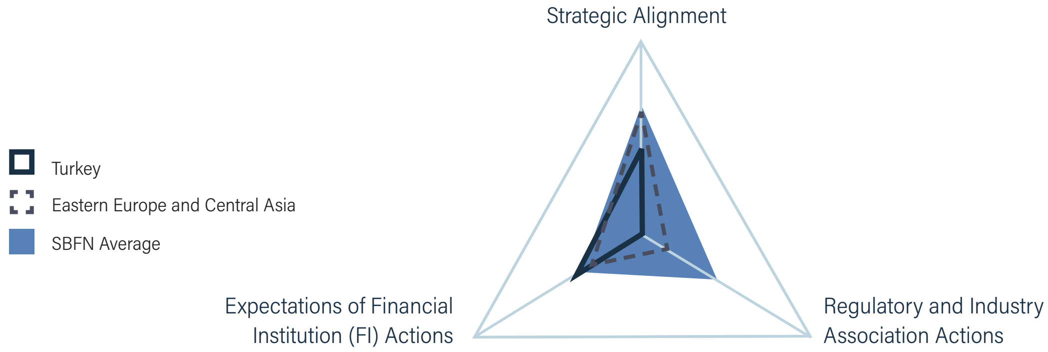
Sub-pillar 3: Expectations for FI Actions

- Application of the BDDK's Guidance on Loan Origination and Monitoring Processes, BAT's Sustainability Guidelines, and the CMB's Sustainability Principles Compliance Framework serves to build familiarity and capacity among Turkish FIs to improve climate risk management practices as part of overall ESG risk management approaches.
- As part of future progress, the Sustainability Guidelines for Banks can be further elaborated with technical guidance and implementation tools to support the expected actions of FIs for 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: Developing

Turkey is in the **"Developing" sub-stage of the "Implementation" stage** of progression for the Financing Sustainability Pillar. There is a national framework for promoting financial flows into green, climate, social, and sustainability-linked projects and sectors, and ongoing awareness raising and capacity building for financing sustainability actions and expectations.



Sub-pillar 1: Strategic Alignment

- Turkey's national framework for financing sustainability, led by the BAT's 2021 updated Sustainability Guidelines for the Banking Sector and the BDDK's Guidance on Loan Origination and Monitoring Processes, mainly covers the banking sector.
- The Turkish financial sector's approach to promoting financial flow into green and sustainability projects and sectors is in alignment with international goals, such as the UN SDGs.
- Turkey's national framework for financing sustainability identifies key stakeholders and promotes engagement, communication, and collaboration.

Sub-pillar 2: Regulatory and Industry Association Actions

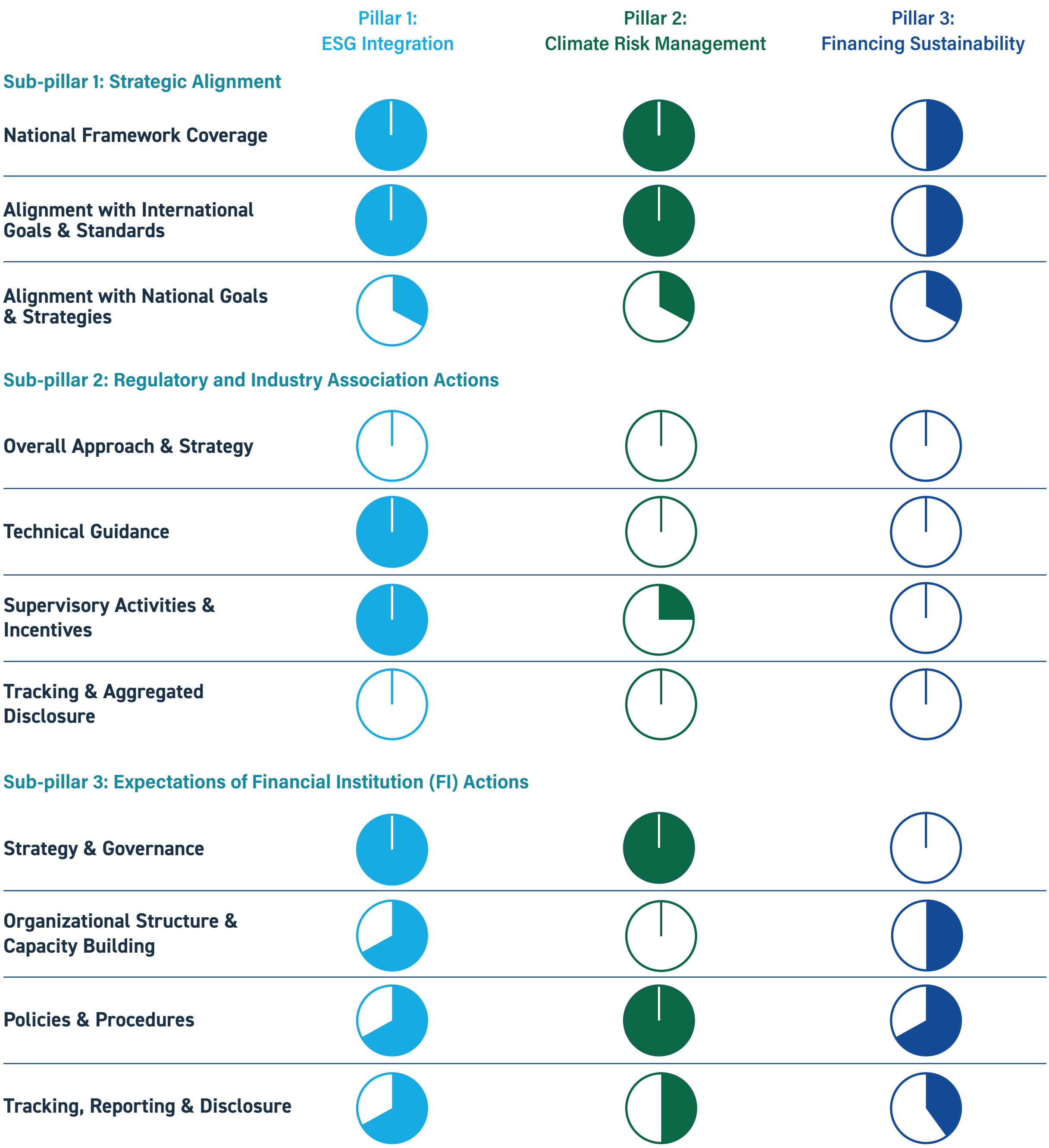
- The Guidance on Loan Origination and Monitoring Processes sets out the expectations for banks regarding environmentally sustainable lending.
- Turkey's national framework for regulators and industry associations' actions and overall approach/ strategy, technical guidance, supervisory activities and incentives, and tracking/aggregated disclosure is still under development.

Sub-pillar 3: Expectations for FI Actions

- The Guidance on Loan Origination and Monitoring Processes states that banks that originate or plan to originate environmentally sustainable credit facilities should develop, as part of their credit risk policies and procedures, specific details of their environmentally sustainable lending policies and procedures, covering the granting and monitoring of such credit facilities.
- The Guidance encourages banks to position their environmentally sustainable lending policies and procedures within the context of their overarching objectives, strategy, and policy related to sustainable finance. In particular, banks should set up qualitative and, when relevant, quantitative targets to support the development and the integrity of their environmentally sustainable lending activity, and to assess the extent to which this development is in line with or is contributing to their overall climate-related and environmentally sustainable objectives.
- BAT's 2021 Sustainability Guidelines for the Banking Sector encourage FIs to conduct awareness raising and training activities, including subjects such as sustainable products and services.
- The Sustainability Guidelines for the Banking Sector encourage FIs to conduct reviews of their corporate governance performance using independent organizations. It also asks that FIs create incentives for managers to increase sustainable loans or investments in their portfolios by stating, "Banks must identify key performance indicators (KPIs) ... with the aim of promoting positive performance, the KPIs should be associated with the performance of employees in the relevant position (page 52)."
- The Guidelines also recommend that FIs' sustainability-related reports should be verified by independent third parties in order to confirm their reliability and should be made public.

3. Progress by three sub-pillars and 11 indicators

Figure 4: Overview of Turkey'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

Guidance on Loan Origination and Monitoring Processes
(BDDK, 2021)

Sustainability Guidelines for the Banking Sector (updated)
(BAT, 2021)

Sustainability Principles Compliance Framework
(CMB, 2020)

Sustainability Guidelines for the Banking Sector
(BAT, 2014)

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.

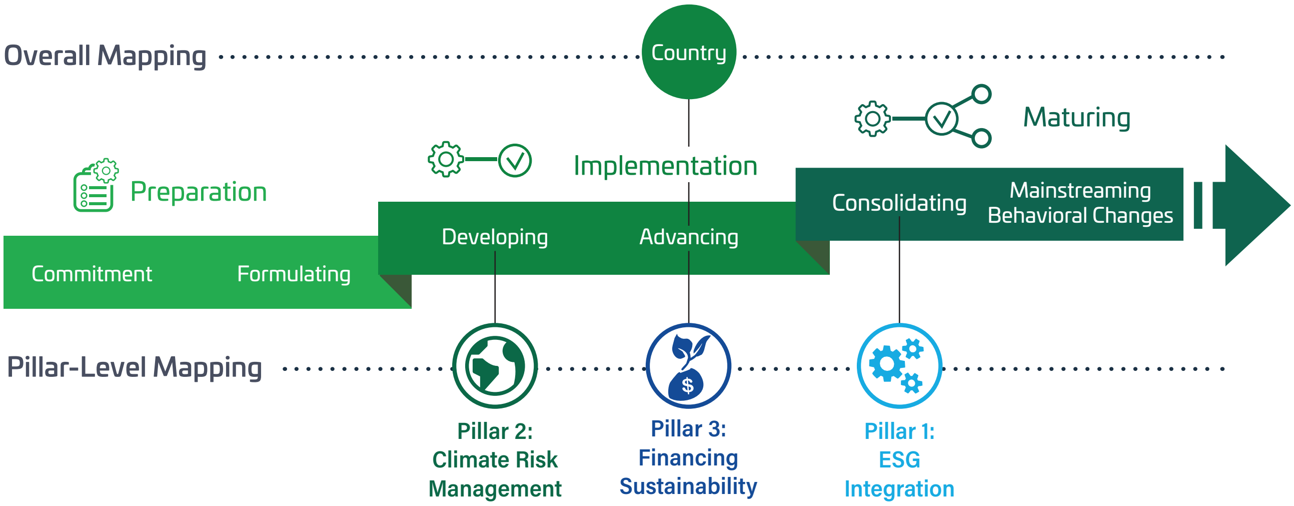
Financing Sustainability refers to initiatives by regulators and financial institutions to unlock capital flows for activities that support climate, green economy, and social goals. This includes new products like green bonds and sustainability-linked loans. Initiatives include definitions, guidance,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

	Pillar 1: ESG Integration / Pillar 2: Climate Risk Management / Pillar 3: Financing Sustainability
Sub-pillar 1: Strategic Alignment	• National framework • Alignment with international goals and standards • Alignment with national goals and strategies
Sub-pillar 2: Regulatory and Industry Association Actions	• Overall approach and strategy • Technical guidance • Supervisory activities and incentives • Tracking and aggregated disclosure
Sub-pillar 3: Expectations of Financial Institution (FI) Actions	• 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

Sub-pillar	Indicator	No.	Underlying datapoint
Pillar 1: ESG Integration			
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

Preparation

Commitment

The financial sector regulator or industry association has announced a formal commitment to achieve progress on Sustainable Finance in the next two years.

Initial steps have been taken, such as a kick-off meeting or workshop with key stakeholders and industry.

Formulating

A formal initiative — led by a financial sector regulator or industry association or both — is in progress to develop a national roadmap, framework, policy, or voluntary industry principles on Sustainable Finance.

Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.

Implementation

Developing

A first national roadmap, framework, policy, regulation, or set of voluntary industry principles on Sustainable Finance has been formally launched.

A formal taskforce or dedicated unit is leading implementation efforts — either within the regulator or industry association, or as a multi-stakeholder working group or platform.

The Sustainable Finance initiative is acknowledged or supported by both regulators and industry.

Awareness raising and capacity building have been conducted.

Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions.

The national Sustainable Finance framework covers multiple parts of the financial system.

Financial institutions report on their implementation of the roadmap, framework, policy, or voluntary principles in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

Maturing

Consolidating

A comprehensive set of national Sustainable Finance initiatives and frameworks are in place, covering all parts of the financial system.

The national frameworks are aligned with international good practice across all three pillars of Sustainable Finance.

Consistent and comparable data is being collected by the regulator as part of supervision — or by the industry association, about implementation by financial institutions.

Mainstreaming Behavioral Changes

There is an established ecosystem of Sustainable Finance initiatives and frameworks that align and integrate with each other.

Financial institutions are required or encouraged to report publicly on their implementation of Sustainable Finance across risk and opportunity.

The regulator or industry association has multi-year data on implementation by financial institutions — including both risk and opportunity. Data includes information on the benefits of Sustainable Finance.

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

Preparation

Commitment

The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, guidelines, or voluntary principles for the financial sector on integrating the management of environmental, social, and governance (ESG) risks and performance (ESG Integration).

A first event or workshop has been held to engage relevant financial sector stakeholders on the topic of ESG Integration for the financial sector.

Formulating

A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles on ESG Integration for the financial sector.

Preparations include research, surveys, multi-stakeholder engagement, and/or awareness raising for the financial sector.

Implementation

Developing

A first national policy, regulation, guidelines, or set of voluntary principles has been formally launched that sets out requirements or recommendations for financial institutions on ESG Integration.

A formal taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry.

Activities include awareness raising and capacity building for financial institutions on the new expectations for ESG Integration.

Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions.

The ESG Integration expectations cover multiple parts of the financial system.

Financial institutions report on their implementation of ESG Integration in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

Maturing

Consolidating

A comprehensive national initiative or set of frameworks are in place that promote ESG Integration across all parts of the financial system.

The national frameworks cover all three cross-cutting areas of ESG Integration:
1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of financial institution actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to ESG Integration and the resulting benefits.

Mainstreaming Behavioral Changes

The national frameworks for ESG Integration are aligned with international good practice and national regulations; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for ESG Integration and are reporting on their efforts.

Extensive data are becoming available on trends among financial institutions regarding practices in ESG Integration and the resulting benefits.

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

Preparation

Commitment

The financial sector regulator or industry association has announced a commitment to develop a policy, regulation, or voluntary principles on Climate Risk Management for the financial sector.

Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.

Formulating

A formal initiative is in progress to develop or refine a national policy, regulation, guidelines, or voluntary industry principles on Climate Risk Management for the financial sector — either as part of an existing ESG framework or as a standalone framework.

Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector.

Implementation

Developing

A national policy, regulation, guidelines, or set of voluntary industry principles is in place that includes requirements and/or recommendations for the financial sector to manage climate risk — either as part of ESG Integration or as a standalone framework.

A formal taskforce, working group, or institution is taking the lead with implementation and/or supervision, and is supported by regulators and industry.

Activities include awareness raising, research, guidance and/or capacity building for financial institutions on managing climate-related physical and transition risks in line with the new expectations in the national framework.

Advancing

Implementation tools and initiatives are in place, such as guidance, guidelines, reporting templates, training, online tools, and supervisory instructions to help the financial sector manage climate-related physical and transition risks.

Financial Institutions report on their approach to Climate Risk Management in line with consistent reporting instructions or templates provided by the financial sector regulator and/or industry association and reflecting international practices.

Maturing

Consolidating

A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to manage climate risk.

The national frameworks cover all three cross-cutting areas of Climate Risk Management:

1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of financial institution actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in relation to Climate Risk Management and the resulting benefits.

Mainstreaming Behavioral Changes

The national frameworks for Climate Risk Management are aligned with international good practice expectations and national climate change commitments; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for climate risk management and are reporting on their efforts.

Extensive data are becoming available on trends among financial institutions regarding climate risk management and the resulting benefits.

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

Preparation

Commitment

The financial sector regulator or industry association has made a public commitment to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green or sustainability-focused projects and sectors.

Initial awareness raising and knowledge sharing is being organized by the regulator or industry association.

Formulating

A formal initiative is in progress to develop a policy, regulation, guidelines, or voluntary principles to promote financial flows to green, social, or sustainability-focused projects and sectors.

Preparations include research, surveys, multi-stakeholder engagement and/or awareness raising for the financial sector.

Implementation

Developing

A national framework is in place that includes regulations or guidance for the financial sector to promote financial flows to green, social, or sustainability-focused projects and sectors.

A taskforce, working group, or institution is tasked with implementation and/or supervision and is supported by regulators and industry.

Activities include awareness raising and capacity building for financial institutions on the new expectations for Financing Sustainability.

Advancing

Implementation tools and initiatives are in place, such as guidance,guidelines, taxonomies, reporting templates, training, online tools, and supervisory instructions to help the financial sector promote financial flows to green, social, or sustainability-focused projects and sectors.

Financial institutions report on their approach to Financing Sustainability in line with consistent reporting instructions or templates provided by the financial sector regulator or industry association.

Maturing

Consolidating

A comprehensive national initiative or set of frameworks are in place aimed at supporting all parts of the financial system to promote financial flows to green, social, or sustainability-focused projects and sectors.

The national frameworks cover all three cross-cutting areas of Financing Sustainability:

1. strategic alignment,
2. regulatory and industry association actions, and
3. expectations of FI actions.

Consistent and comparable data are becoming available on trends in the practices of financial institutions in Financing Sustainability and the resulting benefits.

Mainstreaming Behavioral Changes

The national frameworks for Financing Sustainability are aligned with international good practice expectations and national sustainable development plans; and are consistent across different parts of the financial sector.

Local financial institutions demonstrate that they have embedded the requirements for Financing Sustainability in their operations, portfolio, products, and services and are reporting their performance publicly.

Extensive data are becoming available on trends among financial institutions regarding Financing Sustainability and the resulting benefits.

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