NBG’s Sustainable Finance Framework – application to capital market

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Regional workshop on Resource mobilization for sustainable development in the Asia-Pacific countries in special situations

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Financial sector in Georgia mostly comprises of commercial banks

The financial sector is dominated by commercial banks, with the two largest accounting for around 70% of total assets.

Insurance market has been developing in recent years, however it has relatively small share in total assets of financial sector.

Micro-finance institutions (MFIs) play an important role especially for financing SME's and access to finance in rural areas.
Local debt securities market activity has expanded significantly:

Moreover, the share of domestically issued bonds denominated in the local currency has grown.

Apart from that, the government securities market has expanded significantly throughout the past few years.

The NBG and the Government of Georgia are currently working on the approximation of regulatory principles to those of the EU.
Capital market, despite some progress, is still at an early stage of development

Main challenges:
- Small market size;
- Lack of good corporate governance practices;
- Need for better transparency;
- Limited awareness regarding green/sustainable bonds;
- Lack of common definitions/taxonomy
The NBG started developing Sustainable Finance Framework in 2017.

In 2019, the NBG launched the Roadmap for Sustainable Finance in Georgia:

- The **ultimate goal of this roadmap** is to provide a credible, predictable, and stable regulatory framework and prepare the market for transitioning to sustainable finance.

**Pillars of the Roadmap:**

1. Support capacity building and increase awareness
2. Guide the financial flows towards sustainable development
3. Ensure the incorporation of ESG into risk management and decision-making of financial institutions
4. Support transparency and market discipline
## NBG’s Sustainable Finance Framework

### Roadmap for Sustainable Finance in Georgia:

<table>
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<tr>
<th>Increasing Awareness and Capacity Building</th>
<th>Sustainable Finance Flows</th>
<th>ESG Risk Management</th>
<th>Transparency and Market Discipline</th>
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<tr>
<td>• Develop Policies and Guidance to Support Market Action;</td>
<td>• Introduce Sustainable Finance Taxonomy;</td>
<td>• Integrate ESG Considerations in Corporate Governance (CG) Code for Commercial Banks;</td>
<td>• Include Minimum ESG Disclosure Requirements in CG Codes for Commercial Banks and Capital Market;</td>
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<tr>
<td>• Provide and Facilitate Trainings and Workshops for Stakeholders;</td>
<td>• Develop Sustainable Finance Guidelines;</td>
<td>• Integrate ESG Considerations in CG Code for Capital Market;</td>
<td>• Provide Guidance on ESG Reporting and Disclosure;</td>
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<tr>
<td>• Conduct Research on Sustainable Finance Topics;</td>
<td>• Explore Options for Incentives and Regulations to Stimulate Sustainable Finance Flows.</td>
<td>• Develop ESG Risk Management Guidance and Tools.</td>
<td>• Develop Progress Measurement Tools;</td>
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<td>• Establish Sustainable Finance Working Group.</td>
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<td>• Create an Information Hub.</td>
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**Already Implemented; Ongoing; Upcoming**
Past, ongoing and upcoming projects

- **ESG Integration into Corporate Governance Code for Capital Market:**
  - ESG considerations must be the part of the entity’s strategy;
  - ESG risks should be incorporated into risk management framework;
  - Company shall disclose ESG related information;
  - The company exercises oversight over ESG standards at the board level.
  - Based on comply or explain approach.

- **Taxonomy**

- **Develop Sustainable Finance Guidelines**
The NBG, in cooperation with various local and international stakeholders, is developing the Sustainable Finance Taxonomy for Georgia.

The Taxonomy aims to provide the market with a classification system for identifying activities and/or project categories that deliver on key climate, green, social, or sustainable objectives.

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<td>Social</td>
<td>Affordable Basic Infrastructure</td>
<td>Healthcare and Related Social Services</td>
<td>Financing and Financial Services</td>
<td>Food Security</td>
<td>Education, Culture, Fitness</td>
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Sustainable Finance Taxonomy – main characteristics

✓ Adopts and complies with international best practice;
✓ Draws from and is in line with the Georgian specifics and development priorities;
✓ Developed with various stakeholder engagement;
✓ Is relatively simple and practical to use;
✓ Allows continuous review and development;
✓ Only covers fully green activities and does not include transitional activities;
✓ Broadens the scope of existing local definitions to facilitate further development;
✓ Customized for main local users’ needs i.e. commercial banks and microfinance institutions.
## Sustainable Finance Taxonomy – Main Users

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<th>Main Users</th>
<th>Possible Application</th>
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</table>
| Commercial Banks, Microfinance Institutions, and other Financial Institutions | - Use as a guide for developing sustainable finance strategies;  
- Identify and select projects/activities that can be financed with the green, social, and sustainable bonds (including municipality and sovereign bonds) more easily and consistently;  
- Measure and monitor existing and new sustainable finance flows in the portfolio;  
- Disclose ESG related information in more consistent, comparable manner;  
- Enhance ESG risk management practices;  
- Reduce transaction costs by easing identification and verification process of eligible assets;  
- Decrease uncertainty and reputational risk.                                                                                     |
| Capital Market Participants, including public entities (bond issuers, investors, etc) | - Provide a consistent reference for standard setters and product developers;  
- Use as a benchmark for pre- and post-issuance impact assessments, certifying and labeling green, social, and sustainable projects, and verifying the use of proceeds. |
| Certifiers, Verifiers and other relevant actors                             |                                                                                                                                                                                                                       |
Even though green and sustainable bonds have not been issued in the local bond market, Georgian companies have started issuing these types of bonds in foreign stock exchanges:

- In 2021, Symbiotics arranged the first Sustainability Bond ever issued in Georgia by raising USD 5 million in Georgian Lari equivalent for JSC MFO Crystal.
- In 2021, JSC Georgian Railway (GR), a state-owned railway company in Georgia, issued US $500 million 7-year green bond, listed on the London Stock Exchange.
Thank You!

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