2024 – 2028 MOLDOVA SUSTAINABLE FINANCE ROADMAP

2024

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ACRONYMS

BIS	Bank for International Settlements
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do no significant harm
ECB	European Central Bank
ESG	Environmental, social, and governance
ESMS	Environmental and social management system
ESRM	Environmental and social risks management
EU	European Union
ESRS	European Sustainability Reporting Standards
GHG	Greenhouse gas
GRI	Global Reporting Initiative
ICMA	International capital market association
IFC	Iinternational Finance Corporation
LMA	Loan Market Association
NBM	National Bank of Moldova
NCFM	National Commission for Financial Markets
NDC	Nationally Determined Contribution
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate Related Financial Disclosures
SME	Small and medium enterprises
UN	United Nations

FOREWORD

Sustainability has become a fundamental part of financial decision-making. Fueled by the urgency to combat climate change and achieve inclusive and resilient development pathways, global financial systems are undergoing a transformation to incorporate sustainability factors into the rules and market standards that govern and guide the financial system.

Stakeholders in Moldova's financial system need a clear sustainable finance roadmap to succeed in an economy which may face significant climate change and environmental degradation. Transition to a low greenhouse gas (GHG) and more circular economy is intensifying globally and in Europe, entailing both risks and new opportunities for the economy and financial institutions.

The National Bank of Moldova (NBM) admits that successful development of the country's economy will be put at risk unless the sustainable development paradigm is introduced into the country's finances. The financial system provides financing for the sustainable development of the economy, and therefore it is imperative to have a clear understanding of what kind of economic activity is sustainable. Moldova might rely on the European Union's taxonomy of environmentally sustainable economic activity.

The NBM shares the concern expressed by the leading international financial organizations that in the 21st century, environmental challenges, including climate, will represent a key source of risks for financial institutions. Therefore, it is important that the risk management system of financial institutions in Moldova includes the management of environmental, particularly climate, and related social risks. While managing these risks financial institutions must adhere to the principle of double materiality. That is, they need to consider how their financing can affect both people and the planet, and how sustainability issues can affect their financial well-being. Financial institutions must introduce and offer new financial instruments of sustainable development, including green bonds and green loans. However, prevention of greenwashing is of paramount importance and must be ensured.

To address this need, the NBM developed a 2024 – 2028 Moldova Sustainable Finance Roadmap (hereinafter the Roadmap) that aims to be a guiding document for the NBM, financial institutions and other stakeholders in developing and promoting sustainable finance in the country.

The objective of the Roadmap is 1) to form a clear strategic and systematic vision of the key elements driving the development of sustainable finance in Moldova and what steps should be made to have them in place, 2) to introduce basic sustainable finance terms into the legal framework guiding Moldova's finance, and 3) to determine priorities and design an action plan to develop and implement the country's sustainable finance policy.

The Roadmap is designed to ensure alignment of stakeholder efforts, including greening of the public investment and procurement, securing government support for SMEs and farmers, and greening of the energy sector and energy efficiency efforts in Moldova, in line with the national regulatory framework for environmental protection, climate change mitigation and adaptation.

GLOBAL AND THE EUROPEAN UNION'S VISION OF SUSTAINABLE FINANCE DEVELOPMENT

To ensure survival and development in the face of growing climate and environmental challenges, the paradigm of sustainable development was formulated. Sustainable development is an economic activity that on the one hand must be economically and financially feasible, and on the other, consider climatic and other environmental aspects. Moreover, all this must be embedded into a proper governance (corporate governance) framework adapted to the needs of sustainable development (Figure 1).

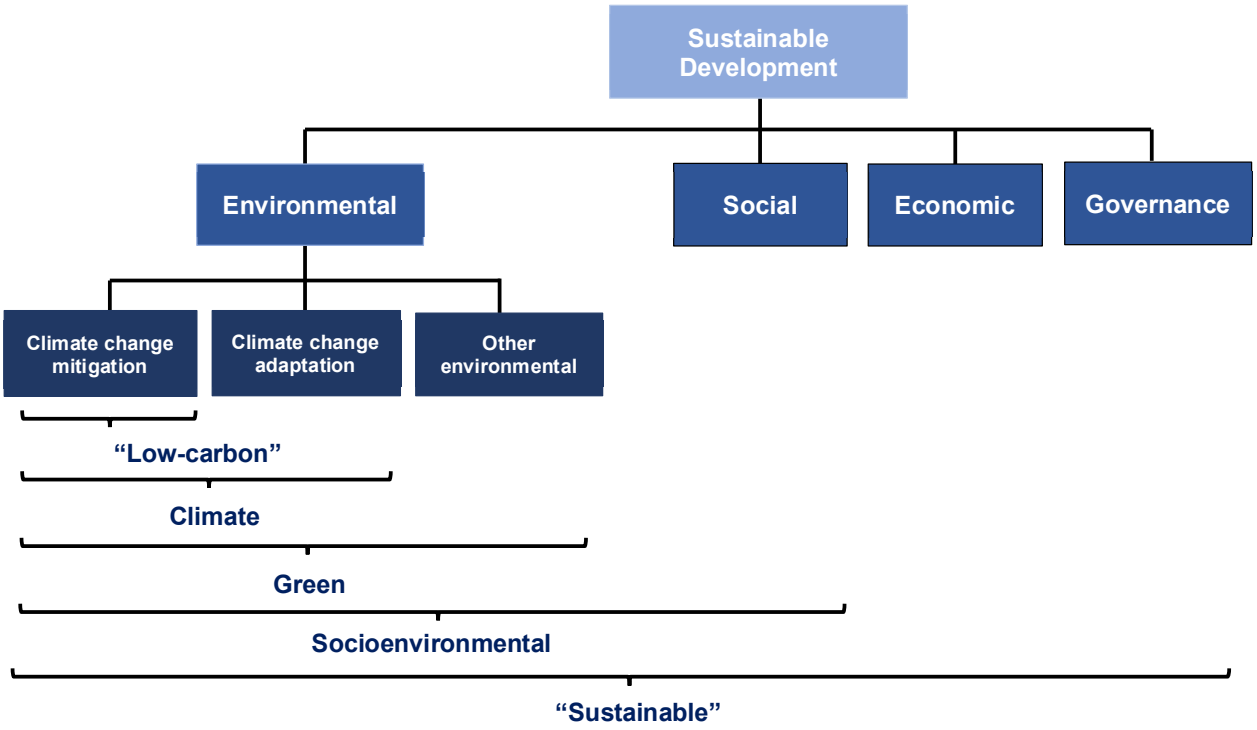

Figure 1. A simplified diagram of the sustainable development paradigm [1].

At the global level important steps are being taken to ensure the development of a sustainable economy and finance that is resistant to climate and environmental challenges. Following the adoption of the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development in 2015, governments are making strides to transition to low-carbon and more circular economies on a global scale. Each country sets its own emission-reduction targets.

[1] UNEP. Definitions and Concepts (2016): https://unepinquiry.org/wp-content/uploads/2016/09/1_Definitions_and_Concepts.pdf

Achieving the Sustainable Development Goals (SDGs), defined by the UN 2030 Agenda for Sustainable Development, must be accompanied by the resolution of climate change and environmental protection issues. The SDGs recognize that poverty reduction must go hand in hand with economic growth and meet critical social needs (such as education, health, social protection and employment opportunities) while addressing climate change and environmental protection. The UN estimates that up to $2,5 - 3 trillion in investment in developing countries is needed each year to achieve SDGs by 2030.

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (EU taxonomy) has formulated environmental objectives of environmentally sustainable economic activity. The following six environmental objectives were defined, of which at least one should be met by an economic activity (investment, project) in order to be classified as sustainable:

1) Climate change mitigation.
2) Climate change adaptation.
3) The sustainable use and protection of water and marine resources.
4) The transition to a circular economy.
5) Pollution prevention and control.
6) The protection and restoration of biodiversity and ecosystems.

In parallel, the Regulation (EU) 2020/852 has formulated criteria of environmentally sustainable economic activity. An economic activity (investment, project) shall qualify as environmentally sustainable if that economic activity meets the following four criteria:

1) Contributes substantially to one or more of the six environmental objectives.
2) Does not significantly harm (DNSH) any of the environmental objectives.
3) Is carried out in compliance with the minimum social safeguards.
4) Complies with technical screening criteria.

The clear definition of the six environmental objectives and four general criteria for environmentally sustainable economic activity was taken as the basis for the EU taxonomy of environmentally sustainable economic activity. The EU taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool. The EU taxonomy allows to have a common definition of economic activity that can be considered environmentally sustainable. As such, it plays an important role in helping the EU scale up sustainable investment by creating security for investors, protecting private investors from greenwashing, helping companies become more climate-friendly and mitigating market fragmentation.

Development of sustainable finance supposes a new sustainability disclosure regime for financial and non-financial companies. Disclosure is an important part in the development of sustainable finance, and there are already recommendations and requirements on this issue, including:

- The Task Force on Climate Related Financial Disclosures (TCFD) provides recommendations for companies and other organizations to develop more effective climate-related financial disclosures through their existing reporting processes.

- The Corporate Sustainability Reporting Directive (CSRD) sets disclosure requirements for all EU large companies and all listed companies (exapted micro-enterprises), and establishes a uniform framework for the reporting of non-financial data for these companies operating in EU.

- The Sustainable Finance Disclosure Regulation (SFDR) sets rules whereby financial market participants offering investment products, and financial advisers are required to provide information about how they deal with negative environmental and social impacts and risks associated with their investments.

Sustainable finance directly refers to the environmental, social and governance (ESG) considerations. ESG factors significantly impact corporate performance, investment returns and loan repayments, that's why ESG policy aims to ensure the development of sustainable financial products and establish trust of investors and creditors. Understanding ESG factors and how they may influence companies and markets can help investors/creditors enhance their returns and reduce their risk.

Sustainable finance is accompanied by proper environmental (including climate) and social risks management (ESRM). ESRM is a mandatory component of sustainable development policy, important for financial institutions, their customers (borrowers), and investors. IFC's Performance Standards are a globally recognized benchmark for environmental and social risk management. The IFC Performance Standards served as the basis for the development of the Equator Principles, which leverage for environmental and social performance of financial institutions. To-date, 140 financial institutions in 39 countries have officially adopted the Equator Principles. The IFC Performance Standards can be also helpful in implementing the DNSH criteria under the EU taxonomy[2].

For ESRM to work in a financial institution, an environmental and social risks management system (ESMS) must be created. The environmental and social management system is a framework that integrates the ESRM into a financial institution's business processes, and consists of several components, including policy, capacity, procedures, and reporting. IFC Performance Standard 1 Assessment and Management of Environmental and Social Risks and Impacts sets out requirements towards establishment and implementation of ESMS[3].

[2] IFC, Promoting Interoperability Across Environmental and Social Risk Management Frameworks: https://www.ifc.org/content/dam/ifc/doc/2023-delta/ifc-epa-research-promoting-interoperability-across-es-risk-management-frameworks.pdf

[3] IFC, Environmental and Social Management System Implementation Handbook: https://www.ifc.org/content/dam/ifc/doc/mgrt/esms-handbook-general-v21.pdf

Together with the IFC Performance Standards, IFC Corporate Governance Methodology establishes a sound foundation for ESG risk management. Corporate Governance Methodology and Tools aim to assess and improve corporate governance of financial institutions and companies, including governance of environmental and social matters. Most recently, IFC has developed a Climate Governance Progression Matrix based on the Corporate Governance Methodology. This tool aims to assist Boards of Directors in identifying and overseeing climate-related risks and opportunities.

Climate and other environmental challenges are recognized as the main risk factor for economy and finance. The European Central Bank (ECB) recommends that climate-related and environmental risks be considered as drivers of the existing categories of risks considered by the financial institutions when they formulate and implement their business strategy and governance and risk management frameworks. The Bank for International Settlements (BIS) estimates that climate and environmental challenges are one of the sources of systemic financial risks and may become the cause of the next global financial crisis.

European regulators believe that financial institutions must take a strategic, forward-looking, and comprehensive approach to addressing climate-related and environmental risks, as the transition to a low-carbon and more circular economy entails both risks and opportunities for the economy and financial institutions. The European Central Bank (ECB) jointly with European Competent Authorities developed a Guide on climate-related and environmental risks that outlines their understanding of effective and comprehensive climate-related and environmental risks management.

The development of sustainable finance includes the use of special financial instruments, such as green and other labeled bonds and loans, facilitating inflow of finance into sustainable economy. These financial instruments pose special requirements helping to ensure that financial resources are used for building a sustainable economy and prevent greenwashing. These requirements relate to the selection of projects, targeted use of funds, impact reporting, and for bonds – the mandatory involvement of an external verifier.

Improving grassroots financial literacy is extremely important in the context of sustainable development. Understanding financial principles can empower people to make green choices, such as investing in renewable energy for their homes or choosing a business that prioritizes green practices. In addition, financially literate consumers are more likely to understand and take advantage of the long-term cost-effectiveness associated with sustainable products, leading to environmentally responsible consumption patterns.

The world community concluded that in order to overcome the gaps in the development of sustainable finance, the national financial regulators should first and foremost design

and implement national sustainable finance roadmaps. Such a roadmap serves several important roles:

- Outline the overall picture of the global and European approach to sustainable finance.
- Determine national approaches and position on sustainable finance.
- Detail an action plan with timelines, actions, key actors, and resources to achieve the vision and goal.
- Identify and coordinate the roles of various stakeholders in the development of sustainable finance in a country.
- Educate policymakers, regulators, industry associations, financial institutions, corporations, international development organizations, civil society, academia and other financial sector actors to improve policy coherence and cooperation.
- Communicate sustainable finance priorities to a wide range of stakeholders, both nationally and internationally, sending a political signal for commitment and action.

VISION OF SUSTAINABLE DEVELOPMENT IN MOLDOVA

To achieve a better and more sustainable future, in 2015 countries from around the world agreed to adopt the UN Agenda for Sustainable Development and the Paris Agreement on Climate Change. The UN 2030 Agenda has at its core 17 Sustainable Development Goals (SDGs) that are the blueprint to achieve a future that ensures stability, a healthy planet, fair, inclusive, and resilient societies, and prosperous economies. The Paris Agreement, signed in December 2015 by 195 countries, for the first time brings all nations into a common cause to undertake ambitious efforts to adapt and build resilience to climate change and to limit global warming to well below 2°C.

Moldova is committed to implement the 2030 Agenda through combined efforts of key stakeholders to eliminate all forms of poverty, combat inequalities and tackle environmental and climate change, ensuring that no one is left behind. While Moldova has registered noteworthy progress to achievement of certain SDGs, it also faces certain challenges, including insufficient financing from the national public budget for environment protection and underfinancing in different social areas[4].

Strengthening resilience against climate change remains a priority for Moldova as a foundational element of its sustainable growth. Moldova is among Europe's most climate-affected countries, meaning that private sector, including financial institutions, may be significantly affected by more frequent adverse climate factors, such as earthquakes, droughts, floods, and late spring frost. The most vulnerable sectors are agriculture, human health, water resources, forestry, transport, and energy[5].

To implement the Paris Agreement, in its updated Nationally Determined Contribution (NDC) (2020), Moldova set more ambitious targets compared to its NDC1 (2015). Its new economy-wide target is to reduce GHG emissions by 70% compared to 1990 levels by 2030, which is higher than the 64 - 67 % laid out in NDC1, and which could be further increased to 88%, if international low-cost financial resources, technology transfer, and technical cooperation are ensured[6]. The Low Emission Development Programme of the Republic of Moldova to 2030[7] systematizes sectoral policies and action plans aimed at achieving the greenhouse gas emission reduction targets set out in the updated NDC.

Moldova acquired the EU membership candidate status and works on strengthening its partnership with the EU, including in the areas of addressing climate change and promoting sustainable development. Due to its active participation in various international programs and initiatives (e. g. the Connecting Europe Facility, the Eastern Partnership and others) Moldova is making progress in achieving the goals of the European Green Deal in terms of the development of a greener and more sustainable trans-European transport and energy network.

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[4] https://sustainabledevelopment.un.org/memberstates/moldova
[5] https://www.undp.org/sites/g/files/zskgke326/files/2023-06/moldova_eu4climate_2023_0.pdf
[6] Ibid.
[7] https://renergy.md/programul-de-dezvoltare-cu-emisii-reduse-al-republicii-moldova-pana-in-anul-2030-intra-in-vigoare-la-1-ianuarie-2024/

Though Moldova has demonstrated positive dynamics of annual GDP growth rates and increases in various sectors, the country faces challenges that need additional funding and can be solved by means of sustainable finance. According to the Country Private Sector Diagnostic 2023, the three imperatives of tackling (a) energy dependence, (b) climate change and sustainable production, and (c) growth of higher-sophistication exports can be achieved by boosting the performance of the renewable energy and high value-added agribusiness, among others. These three sectors were identified as areas of the economy in which the private sector can contribute to enhance productivity and economic diversification and to foster a greener development path.

Climate change affects all areas of a country's development, so for successful activity it is necessary to take into account the risks that this phenomenon can create in all spheres of economic development. Adapting to climate change requires close cross-sectoral coordination and a supportive institutional and legislative environment.
The Climate Change Adaptation Programme of the Republic of Moldova to 2030[8] takes up the core objective of the Climate Change Adaptation Strategy of the Republic of Moldova to 2020 - "to develop and strengthen the capacity of the Republic of Moldova to adapt and respond to the current or potential impacts of climate change", aiming to ensure the integration of adaptation measures into sectoral policies, in synergy with policy documents in the field of climate change adaptation and disaster risk management.
In this regard, the focus on the six vulnerable sectors - agriculture, water resources management, health, forestry, energy and transport- will be maintained in order to achieve the national development agenda framed in the National Development Strategy "European Moldova 2030", the sustainable development goals assumed therein, as well as the updated Nationally Determined Contribution submitted by the Republic of Moldova in 2020 under the Paris Agreement.

The risks and opportunities brought by climate change and the international sustainability commitments undertaken by Moldova underline the need for a solid sustainable finance framework in the country. To address this need, the National Bank of Moldova starts implementation of policy reforms to mobilize finance for the green, stable, and inclusive economic growth. The Sustainable Finance Roadmap by the National Bank of Moldova outlines the key objective, pillars and activities that aim to support the development of sustainable finance in Moldova.

[8] https://www.legis.md/cautare/getResults?doc_id=140163&lang=ro

KEY PILLARS FOR THE DEVELOPMENT OF SUSTAINABLE FINANCE IN MOLDOVA

The objective of the Roadmap is to form a clear strategic and systematic vision of the key elements of the development of sustainable finance in Moldova and the necessary actions for their implementation, to introduce basic sustainable finance terms into the legal framework of Moldova's finance, and to determine priorities and action plan of sustainable finance development policy in the country.

The Roadmap is based on the global concept of sustainable development introduced by the United Nations (the 2030 Agenda for Sustainable Development and the Paris Agreement on Climate Change), the European Union sustainable finance strategy, and the policy of the Government of Moldova regarding the need for a systemic approach to the management of climate, environmental and social and economic risks associated with them to ensure sustainable development of the country (National Development Strategy "Moldova 2030").

Following the European Union sustainable finance strategy on financing sustainable growth, the Roadmap aims to create framework and conditions to redirect financial flows to sustainable investments, to mainstream sustainability in risk management and to enhance transparency and long-termism in Moldova.

The Roadmap is a "living" signpost, and as a reference point for the development of sustainable finance in the country for the coming five years, it should also focus on the distant perspective. For this, the Roadmap should, if necessary, be clarified and supplemented, taking into account new realities, unpredictable climatic/ecological and other possible threats facing Moldova, the European continent and the world as a whole.

The Roadmap consists of the four main pillars:

Increasing awareness and capacity building	Sustainable finance flows	ESG Integration and risk management	Transparancy and market discipline
• Provide and facilitate trainings and workshops for stakeholders • Conduct research on sustainable finance topics • Establish Sustainable Finance Working Group (SFWG) • Create an Information Hub on Sustainable Finance (SF Information Hub) • Develop Sustainable Finance Progress Measurement Tool (SF Measurement Tool) and report progress	• Develop and adopt the Sustainable Finance Taxonomy • Adopt Guidelines for the selection and evaluation of projects that would align with the taxonomy of environmentally sustainable economic activities • Adopt Guidelines on green bonds • Adopt Guidelines on green loans • Develop capacity of financial institutions on green bonds • Develop capacity of financial institutions on green loans • Explore incentives and regulations to stimulate sustainable finance flows • Prudential supervision of assessment and selection by financial institutions of projects for financing sustainable development • Recommend to financial institutions to disclose information on technical criteria for assessment and selection of projects for financing sustainable development	• Integrate ESG considerations into Corporate Governance (CG) Regulations for financial institutions • Adopt regulation requiring financial institutions to manage environmental (including climate) and social risks • Prudential supervision of financial institutions the issues related to identification and management of environmental (including climate) and social risks • ESG awareness raising and capacity building of financial institutions	• Adopt ESG/Sustainability Reporting and Disclosure Guidelines for financial institutions in line with good practices and international standards/frameworks • Awareness raising and capacity building of financial institutions on ESG/Sustainability reporting and disclosure • Prudential supervision of the ESG/Sustainability reporting and disclosure by financial institutions • Publish ESG/Sustainability Reports by financial institutions in the SF Information Hub

Pillar 1
Increasing Awareness and Capacity Building

One of the reasons for the urgency of creating sustainable finance awareness in Moldova is the need for increased awareness and a better understanding of the risks associated with short-termism and the benefits of developing sustainable finance. Therefore, building capacity is one of the important tasks of the Roadmap. The NBM together with the Moldovan Banking Association (MBA), will actively work to promote sustainable finance and build sustainable finance capacity in Moldova among different stakeholders, including banking and non-banking financial institutions, state authorities, non-governmental organizations, and educational institutions. These activities will include workshops, seminars and conferences.

To ensure an effective awareness and capacity building process, it is important to conduct research on sustainable finance topics. The NBM will ensure the conduct of such studies, both in terms of sustainable flows and risk management.

One of the ways to engage with the key stakeholders to promote sustainable finance and assess the implementation of the Roadmap will be to establish a Sustainable Finance Working Group (SFWG). SFWG will include the senior level representatives from relevant ministries and other public institutions, senior leadership of financial institutions, and other stakeholders. SFWG will cooperate in the promotion and implementation of the Sustainable Finance Taxonomy and other activities set out in the Roadmap. SFWG will meet on a regular basis, to exchange ideas, provide updates on ongoing actions regarding sustainable finance and discuss the roles and responsibilities with relation to the list of activities proposed under each pillar in the Roadmap.

Establishing the SFWG can also help communicate the progress made on the development of sustainable finance in Moldova. To this end, the NBM plans to develop the sustainable finance progress measurement tools. Since sustainable finance is on early stage of development in Moldova, the NBM will explore and select several concrete progress measurement indicators, which will be reviewed and adjusted periodically in line with the market's evolution.

To foster awareness raising on sustainable finance, the NBM intends to create the Sustainable Finance Information Hub (SF Information Hub) on its website. The SF Information Hub will consist of the following elements:

- The Sustainable Finance Roadmap of Moldova 2024-2028.
- Sustainable Finance regulations in Moldova and other sustainable finance related documents/reports published by the NBM.
- ESG/ Sustainability reports by financial institutions. Those reports will also be published on the website of those entities, but to foster transparency and the market discipline, it will be important to publish them together as a part of the SF Information Hub.
- International reports and publications, links to the websites with information relevant to sustainable finance.

The SF Information Hub will be updated regularly.

Pillar 2
Sustainable Finance Flows

The main goal of sustainable finance is to ensure the inflow of long-term finances towards sustainable economic activity. To ensure offering of sustainable long-term financial products and green financial instruments by the banking and capital markets, a clear system of selection and evaluation of sustainable projects must be in place. The EU

taxonomy of environmentally sustainable economic activities is an effective solution for ensuring proper selection and assessment of projects for sustainable finance flows.

Moldova needs to have a unified definitions/taxonomy of sustainable economic activity that would be equally applied by all players in the country's financial sector. For this purpose, the NBM plans to prepare a national Sustainable Finance Taxonomy and Guidelines for the selection of projects in Moldova, based on the EU taxonomy of environmentally sustainable economic activities and the recommendations of the the World Bank Group, the International Monetary Fund and the Organisation for Economic Co-operation[9]. This will help stakeholders of the banking and capital markets in Moldova to define, select and evaluate the projects for sustainable financing.

The global and EU practice of sustainable finance offers good examples of working with green instruments, such as green bonds and green loans. The NBM, together with the National Commission for Financial Markets (NCFM), seeks to design Guidelines on green bonds for issuers in Moldova, based on the EU regulation on green bonds and International Capital Market Association (ICMA) Green Bond Principles, as well as Guidelines for issuers on impact reporting. The NBM will also draft green loans Guidelines, aligned with the Loan Market Association (LMA) Green Loan Principles and relevant international best practices.

Awareness-raising activities on the selection and evaluation of projects for sustainable activities and green finance instruments (green bonds and green loans) will be delivered for stakeholders in the banking and capital markets.

To enable sustainable finance flows, the NBM plans to contribute to building capacity of financial institutions to use the EU taxonomy, and green and other sustainable financial instruments.

The NBM plans to include the selection and evaluation of projects for sustainable financing by financial institutions in its prudential supervision, and control/monitoring.

Pillar 3
ESG Integration and Risk Management

Environmental, Social and Governance (ESG) factors are an indispensable part of Sustainable Finance. Considering ESG factors during the provision of financial services and in investment decision-making can boost long-term investments in sustainable economic activities and projects. Sound governance and management of ESG matters is key to long-term viability of both financial institutions and their clients.

The NBM intends to introduce changes to corporate governance regulation for financial institutions to integrate ESG aspects into decision-making of governance bodies of financial institutions, which must be the part of the financial institution's strategy. This

[9] Activating Alignment: Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation, https://www.imf.org/external/np/g20/pdf/2023/091323.pdf

will help to ensure sound governance and management of environmental (including climate) and social risks.

ESG risk management is about integrating ESG risks in lending considerations to avoid or mitigate financial losses, reputational risk or harm to the environment and people caused by projects that banks finance. By effectively managing ESG risks and identifying opportunities alongside these risks, financial institutions can create long-term value for their business. The optimal long-term value creation is only possible through a careful management of both risks and opportunities.

The NBM considers adopting a regulation requiring financial institutions to manage environmental (including climate) and social risks. The ESG risk management guidance will be consistent with the best international practice, which usually requires undertaking of environmental and social due diligence, credit review that includes ESG risks, and continued supervision on ESG risks after lending. The ESG risk management should be integrated into the risk management system of the financial institution.

Sound ESG risk management is important for the purposes of banking sector's stability. To ensure this, the NBM intends to include in the system of prudential supervision of financial institutions the issues related to identification and management of ESG risks (including climate-related risk).

Governance, and management of environmental (including climate) and ESG risks as part of credit decision making is still new to banks and other financial institutions. Therefore, the NBM will actively collaborate with different stakeholders on awareness raising and capacity building of financial institutions on the ESG related topics.

Pillar 4
Transparency and Market Discipline

Transparency is the key element for sustainable finance development as it establishes market discipline and aims to prevent greenwashing. The corporate governance regulation will emphasize the importance of ESG/Sustainability reporting and disclosure.

Along with this, the NBM will adopt ESG/Sustainability Reporting and Disclosure Guidelines for financial institutions in line with good practices and considering approaches by the internationally recognized ESG/Sustainability reporting standards/frameworks, such as CSRD, SFDR, ESRS, TCFD and GRI, based on adopted sustainable finance taxonomy and Moldova's decarbonization challenges. When developing the ESG/Sustainability Reporting and Disclosure Guidelines, NBM plans to apply the "double materiality" concept, which foresees disclosure of a financial institution's impact on the environment and society, and the extent to which sustainability matters affect the financial institution. Prior to the development of the ESG/Sustainability

Reporting and Disclosure Guidelines, financial institutions can use one of the internationally recognized ESG/Sustainability reporting standards/frameworks.

Sound ESG/Sustainability reporting and disclosure is important for banking sector's stability and trust by investors and other stakeholders. To ensure this, the NBM intends to include in the system of prudential supervision of financial institutions the issues related to ESG/Sustainability reporting and disclosure.

To foster transparency and market discipline, the NBM will publish ESG/Sustainability reports by financial institutions in its SF Information Hub. Financial institutions will also publish their ESG/ Sustainability reports on their websites. Since the ESG/Sustainability disclosure sphere is actively evolving and there are many developments and numerous international standards/frameworks, which may be confusing for financial institutions, the NBM will actively collaborate with different stakeholders on awareness raising and capacity building of financial institutions on the ESG/Sustainability reporting and disclosure matters.

APPENDIX A: ACTION PLAN FOR THE DEVELOPMENT OF SUSTAINABLE FINANCE IN MOLDOVA 2024-2028

Pillar	Activities	Timeframe									
		2024		2025		2026		2027		2028	
		H1	H2	H1	H2	H1	H2	H1	H2	H1	H2
1. Increasing Awareness and Capacity Building	1.1 Conduct and facilitate public events and trainings to increase the understanding by stakeholders.										
	1.2 Conduct research on sustainable finance topics, both in terms of sustainable flows and risk management.										
	1.3 Establish an SFWG to discuss the implementation of the Roadmap and other matters related to promotion of sustainable finance										
	1.4 Create an Information Hub on Sustainable Finance										
	1.5 Develop Sustainable Finance Progress Measurement Tool and report progress										
2. Enabling Sustainable Finance Flows	2.1 Develop and adopt the Sustainable Finance Taxonomy										
	2.2 Adopt Guidelines for the selection and evaluation of projects that would align with the taxonomy of environmentally sustainable economic activities										

	2.3 Adopt Guidelines on green bonds										
	2.4 Adopt Guidelines on green loans										
	2.5 Develop capacity of financial institutions on green bonds.										
	2.6 Develop capacity of financial institutions on green loans.										
	2.7 Explore options for incentives and regulations to stimulate sustainable finance flows										
	2.8 Within the framework of prudential supervision, monitor the procedure of assessment and selection by financial institutions of projects for financing sustainable development										
	2.9 Recommend to financial institutions to disclose information on technical criteria for assessment and selection of projects for financing sustainable development										
3. ESG Integration	3.1 Integrate ESG Considerations into Corporate										

and Risk Management	Governance (CG) Regulations for Financial Institutions										
	3.2 Adopt a regulation requiring financial institutions manage environmental (including climate) and social risks										
	3.3 Include in the system of prudential supervision of financial institutions the issues related to identification and management of environmental (including climate) and social risks										
	3.4 Deliver ESG awareness raising and capacity building of financial institutions										
4. Transparency and Market Discipline	4.1 Adopt ESG/Sustainability Reporting and Disclosure Guidelines for financial institutions										
	4.2 Deliver awareness raising and capacity building of financial institutions on ESG/Sustainability reporting and disclosure										
	4.3 Within the framework of prudential supervision, monitor the ESG/Sustainability reporting and										

	disclosure by financial institutions										
	4.4 Publish in the Information Hub ESG/Sustainability Reports by financial institutions										

APPENDIX B: KEY TERMS USED IN THE ROADMAP

The terms used in the Roadmap are used in the sense defined by the EU legislation on sustainable development[10] and other international standards and are as follows:

Climate change adaptation –the process of adjustment to actual and expected climate change and its impacts.

Climate change mitigation –the process of holding the increase in the global average temperature to well below 2 °C and pursuing efforts to limit it to 1,5 °C above pre-industrial levels, as laid down in the Paris Agreement.

Environmental, social, and governance (ESG) – set of environmental, social, and governance factors considered by companies when managing their operations, and investors when making investments, in respect of the risks, impacts, and opportunities relating to but not limited to:

- *Environmental issues:* potential or actual changes in the physical or natural environment (e.g., pollution, biodiversity impacts, carbon emissions, climate change, natural resource use);

- *Social issues:* potential or actual changes in the surrounding community and workers (e.g., health and safety, supply chain, diversity and inclusion); and

- *Governance:* corporate governance structures and processes by which companies are directed and controlled (e.g., board structure and diversity, ethical conduct, risk management, disclosure and transparency), including the governance of key environmental and social policies and procedures.

Environmental and social (ES) risks – the probability of losses or additional expenses, or loss of planned income, or loss of reputation of a financial institution due to the negative financial impact of current or future ESG factors on counterparties and their assets.

Environmental and social risk management (ESRM) – risk management system that, being a component of the company's (financial institution's) overall risk management system, provides an opportunity to constantly identify, assess and minimize climate, environmental and social risks during the preparation and implementation of a funded project and the activities of the funding entity.

Environmental and Social Management System (ESMS) – framework that integrates the management of environmental and social risks into the business processes of a financial

[10] Regulation (EU) 2020/852 of the European parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (EU Taxonomy Regulation): https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32020R0852 and other EU regulations and recommendations.

institution and has several components, including policies, capabilities, and procedures for identifying, assessing, monitoring, preventing and minimizing risks, as well as risk response and reporting.

Greenhouse gases - the gases listed in Annex II to Directive 2003/87/EC of the European Parliament and of the Council and other gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and re-emit infrared radiation;

Greenwashing **–** misleading creditors/investors regarding the use of funds received from them, as if for the purpose of sustainable development, in order to provide the borrower/issuer with preferences, to create its image as environmentally oriented.

Inclusiveness in sustainable finance **–** empowering citizens, as retail investors or consumers, and small and medium enterprises (SME) to access sustainable finance opportunities.

Sustainability risk – environmental, social or governance (ESG) event or condition that, if it occurs, could cause a negative material impact.

Sustainable development – long-term economic prosperity, less dependent on the use of limited resources and the exploitation of the natural environment, and more socially inclusive. Sustainable development includes environmental, social, economic, and governance aspects, which are closely interlinked.

Sustainable finance **–** the process of taking **environmental, social and governance (ESG) considerations** into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.

Sustainable finance instruments – bonds, loans and other financial instruments, proceeds from which are used exclusively for a combination of environmental (including climate) and social projects.

Sustainable finance framework **–** a set of policies, regulations and recommendations that, by defining structure, order and tools, provide the basis for a sustainable finance development model. The components of the EU sustainable finance framework are, in particular, the EU taxonomy regulations, disclosure regulations, regulation on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities, and regulation on green bonds.

Taxonomy of sustainable economic activities **–** a classification system that establishes a list of environmentally sustainable economic activities and thresholds (technical screening criteria) that can clearly determine which economic activity is in line with sustainable development, environmental objectives, and criteria of environmentally sustainable economic activities. Such a taxonomy helps investors, issuers, and project

promoters focus on the transition to a low-carbon, risk-resistant, and resource efficient economy, and facilitates a climate disclosure system.

- The EU taxonomy for sustainable activities (EU taxonomy) is a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals other than climate; it is cornerstone of the EU's sustainable finance framework.

The GRI Standards (GRI) **-** are global standards that provide a framework for sustainability impact reporting. The GRI Standards enable organizations to understand and report on their impacts on the economy, environment and people. The Standards are designed as an easy-to-use modular set, delivering an inclusive picture of an organization's material topics, their related impacts, and how they are managed.

Verifier – an officially accredited entity selected by the issuer of green bonds to protect the interests of investors through independent external control (verification) for compliance with the requirements consistent with the recommendations of leading capital market participants regarding the issuer's policy on green bonds, the selection of projects for full or partial financing and/or refinancing with green bonds proceeds, targeted use of the proceeds and impact reporting.