



In Conversation with

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1. When and why did your institution join the NGFS?

The Central Bank of Egypt (CBE) joined the Network for Greening the Financial System (NGFS) in May 2022. This move came in light of the State's strategy to achieve sustainable development goals, acknowledging the crucial role of the financial sector in fostering a green economy and adhering to global best practices. The NGFS, with 138 members globally in March 2024, works towards UN sustainable goals and the Paris Agreement's principles, aiming to enhance the banking sector's involvement in environmental risk management and the support for green projects. Therefore, this move is part of CBE's broader efforts to increase banking sector resilience, provide funding for projects aimed at sustainable growth and address climate change challenges.

The membership in the NGFS offers the CBE a number of benefits that are pivotal in addressing climate-related risks and fostering sustainable finance, as it grants central banks access to a global pool of knowledge and expertise, alongside best practices for integrating climate risks into financial stability monitoring and micro-supervision. The NGFS also plays a crucial role in capacity building through organised workshops and training sessions, as well as supporting research initiatives to explore the financial implications of climate change.

Collaboration is another cornerstone, with members having the opportunity to work together on projects aimed at greening the financial system and to influence global financial standards and policies. This collective action enhances our ability to integrate climate risks into risk management frameworks, backed by guidance on scenario analysis and stress testing to assess financial institutions' resilience.

The NGFS supports the development and promotion of sustainable practices within the financial sector, providing access to essential data and metrics for managing climate-related financial risks. It also offers guidance on policy measures and the integration of climate change considerations into

monetary policy, ensuring that central banks are well-equipped to support the transition to a sustainable economy.

The NGFS's membership fosters a global network and community among central banks, facilitating effective stakeholder engagement with financial institutions, policymakers, and international organisations. This collective approach not only enhances our capacity to tackle climate change challenges but also supports a sustainable economic transition, making NGFS's membership invaluable for all central banks committed to greening the financial system.

2. Can you share with us the key elements of the CBE's climate strategy and how it fits into the broader national strategy in your jurisdiction?

The CBE has significantly advanced the integration of Environmental, Social and Governance (ESG) factors within Egypt's financial ecosystem. This progress began in July 2021 with the issuance of the Sustainable Finance Guiding Principles, aimed at deepening the understanding and adoption of sustainable finance practices. By focusing on embedding ESG considerations into banking operations, these principles highlight the importance of managing environmental and social risks effectively, highlighting climate change risk management.

Subsequently, the CBE through its collaboration with the International Finance Corporation in 2022, undertook a sustainable finance gap analysis to assess the opportunities and gap among the banking sector. Accordingly, following these efforts, the CBE has issued the Binding Regulations on Sustainable Finance in November 2022, a key component of the regulatory framework, to enhance the assessment and management of environmental and social (E&S) financial risks. As part of this framework, banks were mandated to integrate E&S policies and procedures, especially those addressing climate risks, into their operations. Additionally, it also required banks to consult with environmental experts to assess the environmental impacts of large corporates' projects seeking finance, demonstrating a proactive approach towards environmental stewardship.

Simultaneously, the CBE furthered its commitment by developing a unique data collection framework, mandating banks to submit three types of periodic reports: (i) a quarterly report detailing their environmental and social lending portfolio, (ii) a semi-annual report evaluating their compliance with guiding principles and regulations alongside their climate risk management efforts, and (iii) an annual report in alignment with Global Reporting Initiative (GRI) standards. This annual report provides a holistic view of the banks' strategies for sustainability, ensuring a comprehensive approach to the adoption of sustainable finance within Egypt's banking sector. This comprehensive strategy reflects the CBE's overarching commitment to align Egypt's financial sector with global best practices in sustainable finance, ensuring its alignment with both national and international objectives for sustainable development.

Regarding carbon emissions, all banking institutions were inquired to conduct measurement of the carbon footprint associated with their headquarters in 2022, as per the regulations. The purpose of this was to elevate the banks' consciousness regarding their direct emissions (Scope 1) and to catalyse a broader institutional reflection on their environmental impact. This requirement helps enhance the financial sector's accountability and transparency in environmental stewardship.

In addition to this, capacity building is a fundamental pillar of the CBE's strategy for promoting sustainable finance. In collaboration with the Egyptian Banking Institute (EBI) and various international organisations dedicated to providing training and technical assistance designed to enhance the capabilities of banks and financial institutions in managing climate risks. This effort emphasises CBE's

commitment to amplifying public awareness about the critical role of sustainable finance in our collective future.

Collaborations and partnerships play a vital role domestically as they ensure alignment with Egypt's climate goals, and internationally, through engagement in forums like the NGFS, allowing the CBE to share experiences and adopt global best practices. This global collaboration enriches our understanding and approach to green finance, positioning the Egyptian financial sector as a proactive contributor to global environmental objectives.

All these aforementioned measures are in alignment with the broader objectives of the national sustainable development strategy, Egypt Vision 2030 & the National Climate Change strategy (NCCS 2050) ensuring that the country's financial sector not only contributes to but also benefits from sustainable development goals. Within this broader vision, the Central Bank of Egypt plays a crucial role by encouraging the private sector mobilise finance by directing financial flows towards sustainable projects and activities that contribute to environmental protection and the transition to a low-carbon economy.

3. To which extent did the CBE leverage the work of the NGFS in its own domestic journey? Any concrete examples?

The CBE has significantly leveraged the work of the NGFS in advancing its domestic journey towards integrating climate change considerations into its financial system. A testament to its commitment is the CBE's active participation in various NGFS working groups, which has been instrumental in building the central bank's capacities in various crucial areas.

Being part of these working groups allows the CBE to stay at the forefront of global best practices and innovations in green finance. This participation is a strategic engagement that has enabled the CBE to absorb a wealth of knowledge and expertise, directly influencing its policy-making and regulatory frameworks. For example, through its involvement in the NGFS, the CBE has gained insights into developing and implementing regulatory guidelines for banking sector.

One concrete example of the NGFS's influence on the CBE's practices is the adoption of the NGFS climate scenarios for stress testing. These scenarios provide a benchmark for the CBE to assess the resilience of Egypt's banking sector to various climate-related risks. The stress testing framework, inspired by the NGFS, allows the CBE to simulate different climate pathways and their potential impact on financial institutions, including physical risks associated with climate change and transition risks during the shift to a low-carbon economy. These stress tests enable the CBE to quantify the potential financial exposure of banks showing the potential impact of climate related risks on the banks' liquidity, credit, reputational and market risk. Secondly, the insights gained from these stress tests guide the CBE in advising banks on enhancing their risk management practices, particularly in terms of incorporating climate risks into their strategic planning and decision-making processes.

The engagement with the NGFS has also facilitated the CBE's efforts in capacity building within the Egyptian financial sector. Through workshops, training sessions, and shared research facilitated by the NGFS, the CBE has been able to enhance the understanding and capabilities of local financial institutions regarding climate risks and sustainable finance.

4. *One last word?*

In closing, I would like commend the NGFS for its unwavering commitment to integrating climate considerations into the global financial landscape. The collaborative efforts and shared wisdom of this Network have been instrumental in guiding the CBE along its journey toward a more sustainable and resilient financial sector.

The NGFS's influence on methodologies used for climate risk assessment and for encouraging collective action puts it in a unique position to encourage the inclusion of developing and low-income countries within their frameworks. Therefore, we recommend that the NGFS:

1. Create simplified climate stress tests and scenario analyses that can be easily integrated in developing economies' financial stability assessments, considering the varying technical capacities and data availability.
2. Provide cross-border exposure on climate risk management, by encouraging more members to share their experiences and challenges, so that countries at the beginning of their journey do not have to reinvent the wheel.
3. Support the uptake of the unified disclosure standards for climate risk (ISSB IFRS 2) by member institutions to ensure global coherence and increase the availability of cross border data.