

Central Bank of Iraq
OUTLINE OF SUSTAINABLE FINANCE ROADMAP
(2023-2029)

A. Background and Fundamentals

1. Name of Country:

Republic of Iraq

2. Rationale/Drivers for developing a Sustainable Finance Roadmap:

In its **2022 Country and Climate Development Report (CCDR)** for Iraq, the World Bank recommends that Iraq “[d]evelop and implement a **“Green Finance Framework”** to assist the Iraqi Financial Sector in its contributions to meet Iraq’s NDC¹ goals. This framework can **outline specific financial policies, regulations, tools and instruments** that provide transitional support for new green technologies. Policies should also be established to **enable investment and strengthen market incentives for low carbon infrastructure.**”²

This Sustainable Finance Roadmap is being developed in order to:

1. Manage **Environmental, Social and Governance (ESG) Risks** in order to maintain **Monetary and Financial Stability** and **protect depositors, investors and shareholders.**
2. Foster **Financial Inclusion** and **deploy excess liquidity** of private banks particularly **to finance Small and Medium Enterprises (SMEs).**
3. Need to **finance other industry sectors (agriculture, tourism, renewable energy)** to **diversify sources of revenues.**
4. Need to **finance climate change mitigation and adaptation** as well as **pollution management.**
5. **Align with international and regional** banking standards and expectations.

¹ Nationally Determined Contributions under the Paris Agreement

² CCDR, p. 52

3. Financing Needs:

- The 2022 World Bank Country Climate and Development Report (CCDR) for Iraq estimates that “[b]y 2040, Iraq requires **US\$ 233 billion** to respond to its most pressing development gaps while embarking on a green and inclusive growth pathway.”
- The “**no regret**” and “**high impact**” investments identified in the CCDR are as follows:

Identified “no regret” and “high impact” Investments	(US\$ billions) By 2040
Rehabilitation of hydraulic infrastructure and irrigation, reclamation of irrigation	42
Water and agriculture non-structural investments	6
Eliminate gas flaring and utilize it in power generation	29
Adopt the Cost-Effective Decarbonization pathway (CEDP) for the power sector	63
Overhaul the power grid	52
Adopt the “High Ambition” transport decarbonization pathway	31

4. Roadmap objectives:

- Introduce and promote **sustainable finance practices** to the **banking sector** to achieve **financial stability goals**, **reduce environmental and sustainable risks** and achieve **social development**.
- In the CCDR, the World Bank found that “[f]inancing Iraq’s green transition will require the **mobilization of both public and private capital** and strategic deployment of public finance instruments to attract private finance.”
- Hence, “[a]s a first step towards mobilizing climate finance, the [Government of Iraq] needs to **create the enabling environment** in which finance can be shifted from carbon intensive to green activities over time. This would involve **strengthening institutional and technical capacities** to address barriers to **catalyzing climate investment in Iraq...**”

5. Lead entity and key stakeholders:

- Lead entity: **Central Bank of Iraq**
- Key Stakeholders: Banks (Islamic Banks, Commercial Banks, Government Banks), Non-banking financial institutions (Foreign currency exchange offices), Payment systems providers, Iraqi Company for Deposit Insurance, *Iraqi Securities Commission, Iraqi Stock Exchange, Iraqi Private Banks League*

6. Roadmap scope:

- Cover the **institutions supervised** by the **CB of Iraq** (Islamic Banks, Commercial Banks, Government Banks, Foreign currency exchange offices, Payment systems providers, Iraqi Company for Deposit Insurance).
- Other Financial Regulators and Industry Associations: Iraqi Securities Commission, Iraqi Stock Exchange, Iraqi Private Banks League.
- Involve initiatives to **(1) enhance ESG Integration; (2) capacitate Environmental and Social Risk Management; and (3) finance Sustainable sectors.**
- **Align** with the **CBI strategic plan for 2024-2026.**
- Per the CCDR, mobilizing climate finance would include initiatives on:
 - i. identifying **risks** and **opportunities** for the financial sector,
 - ii. analyzing **gaps** in institutional capacity and governance,
 - iii. developing a **green** or **climate finance strategy**,
 - iv. creating a **green** or **transition taxonomy**,
 - v. extensive **training and capacity building** of financial market participants including banks and financial institutions,
 - vi. issuance of **guidelines and regulations** related to the identification and monitoring of **climate related risk**,
 - vii. promoting **innovative financial instruments** and
 - viii. providing **incentives** to diversify the energy mix, transition to a lower carbon path and climate-resilient infrastructure.³

³ CCDR, pp. 54-55

B. Measures Included in the Roadmap

Activity	Description	Target (indicator)	Lead responsible entity	Support responsible entities	Timeline (urgency)	Priority (level of impact)	Status
PILLAR I: Increasing Sustainable Finance awareness and capacity							
1.1 Provide and Facilitate Mandatory Trainings and Workshops for Stakeholders	<ul style="list-style-type: none"> The Central Bank (with help from development partners) will provide mandatory training and workshops on sustainable finance for Risk/ESG Teams of Iraqi banks and regulated entities. 	building capacity - banks	<i>Central Bank & IFC</i>	<i>The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors</i>	2023-2029	<i>High</i>	<i>Ongoing</i>
1.2 Identify Sustainable Finance opportunities.	<ul style="list-style-type: none"> Identification of (a) sources of funding and investment (such as development partners and international investors) as well as (b) economic sectors and activities that can be opportunities for sustainable funding and lending. 	Identify Sustainable Finance sectors and opportunities for funding and lending	<i>Central Bank & IFC</i>	None	2023-2025	<i>High</i>	<i>Ongoing</i>
1.3 Establish Sustainable Finance Working Group	<ul style="list-style-type: none"> Completed. 	Identify responsible persons at the Central Bank	<i>Central Bank</i>	None	2023	<i>High</i>	<i>Done</i>
1.4 Establish mandatory Sustainable Finance Working Groups in each Iraqi Bank	<ul style="list-style-type: none"> Mandate that each Iraqi bank establish a Sustainable Finance Working Group working closely with the Risk Management group and reporting to the Board Risk committee 	Issuance of regulation	<i>Central Bank</i>	None	<i>December 2023</i>	<i>High</i>	<i>Not yet started</i>
1.5 CB Iraq (with support from development	<ul style="list-style-type: none"> Risk and Sustainable Finance Working Groups of Iraqi Banks will 	Launch of Training/	<i>Central Bank & IFC</i>	None	2024-2025	<i>High</i>	<i>Not yet started</i>

partners such as IFC) to require mandatory training of Risk/ Sustainable Finance Teams of Iraqi Banks	be required to undertake mandatory training and capacity building on ESG Risk management and Sustainable Finance.	Capacity Building Programs					
1.6 Develop Policies and Guidance to Support banks to adopt and use sustainable finance practices.	<ul style="list-style-type: none"> In addition to capacity building, the Central bank will issue policies, guidance and regulation to encourage and promote sustainable finance as may be needed. 	Issuance of guidance or regulation	Central Bank	None	2024-2025	High	Not yet started
1.7 Develop Sustainable Finance Code (of conduct/ethics) for the banks (similar to CG/ESG Guidelines) (Bank manual)	<ul style="list-style-type: none"> The Central Bank will develop and issue a model Sustainable Finance Manual for (internal) adoption by the banks and regulated entities. 	Enhancing regulatory and regulatory requirements	Central Bank & IFC	The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors	2024-2025	High	Not yet started
PILLAR II: Strengthening ESG risk management							
2.1 Enact New Mandatory ESG Code for Banks	<ul style="list-style-type: none"> The Central Bank will develop and enact regulation mandating standards for Environmental, Social and Governance to be followed by banks (similar to the Corporate Governance Code) 	Enhancing regulatory and regulatory requirements	Central Bank & IFC	The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors	2024-2025	High	Not yet started
2.2 Develop and enact Mandatory ESG Risk Management Guidelines (ESMS)	<ul style="list-style-type: none"> The Central Bank will develop and enact regulation mandating standards for Environmental and Social Management Systems by banks. 	To strengthen and improve the risk system	Central Bank & IFC	The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors	2024-2025	High	Not yet started

2.3 Integrate Climate dimension in ESG Risk Management by encouraging banks to manage their climate risks	<ul style="list-style-type: none"> The Central Bank will develop and enact policies and guidance on how banks should manage their climate risks as part of their risk management 	Enhancing regulatory and regulatory requirements	<i>Central Bank & IFC</i>	<i>The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors</i>	2024-2025	High	<i>Not yet started</i>
2.4 Adopt Basel Committee Principles for effective management and supervision of climate-related financial risks	<ul style="list-style-type: none"> The Central Bank will enact regulation adopting the Basel Committee Principles for effective management and supervision of climate-related financial risks. 	Transformational risk management	<i>Central Bank</i>	<i>The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors</i>	2024-2026	Medium	<i>Not yet started</i>
2.5 Including ESG factors in banks' lending/credit decision making	<ul style="list-style-type: none"> Develop guidance and capacity building measures to encourage banks to include ESG factors in lending decisions. 	To reduce risks and enhance investment opportunities	<i>Central Bank & IFC</i>	<i>The Center for Banking Studies; Iraqi Private Banks League; and Governance Institute for Directors</i>	2025-2026	High	<i>Not yet started</i>
2.6 Identifying banks' exposure to carbon intensive borrowers (how much of bank lending is to high Green House Gas emitters)	<ul style="list-style-type: none"> Determine how much of bank lending is to companies and activities that emit high amounts of Greenhouse Gasses (GHG) and add to global warming/climate change. 	Enhancing regulations and regulatory requirements	Central Bank	None	2025-2026	Medium	<i>Not yet started</i>

PILLAR III: Encouraging Sustainable finance flows							
3.1 Adopt a shared definition of green projects/assets	<ul style="list-style-type: none"> Provide guidelines on definitions of what are “green,” “social” or “sustainable” projects, activities or assets. 	To enhance the classification of asset items in banks	<i>Central Bank</i>	None	2025-2026	Medium	<i>Not yet started</i>
3.2 Explore Options for Incentives and Regulations to Stimulate Sustainable Finance Flows	<ul style="list-style-type: none"> The Central Bank will consider regulatory incentives (preferential treatment) or other mechanisms to encourage sustainable lending and investment. 	stimulate cash flow	<i>Central Bank</i>	None	2025-2026	Medium	<i>Not yet started</i>
3.3 Mobilize green resources; develop green saving products; set up a refinancing mechanism of loans to eligible projects	<ul style="list-style-type: none"> Encourage the development of sustainable deposit and lending products. Consider special facilities (e.g. loan refinancing) to encourage sustainable lending 	To enhance the asset quality of banks by attracting sustainable funding	<i>Central Bank</i>	None	2026	Medium	<i>Not yet started</i>
3.4 Continue to reduce gender gaps through green banking products	<ul style="list-style-type: none"> Encourage appropriate lending products for financial inclusion and funding of underfinanced economic activities. Encourage lending to activities that will limit or help adjust to environmental changes due to climate change. 	Introduce gender (green, social) bank products	<i>Central Bank</i>	None	2026	Medium	<i>Not yet started</i>
3.5 Develop Guidelines for Sustainable Finance Products including: i. Green/sustainable lending ii. Green/sustainable bonds iii. Green fintech iv. Finance to support women	<ul style="list-style-type: none"> Develop and enact enabling regulation to promote green, social and sustainable lending and financing. 	Enactment of Guidelines	<i>Central Bank</i>	None	2026-2029	Medium	<i>Not yet started</i>

3.6 Adopt a national strategy for financial inclusion. Develop targets for digital financial inclusion	<ul style="list-style-type: none"> Develop a strategy for greater access by Iraqi citizens and businesses to finance through technology. 	Improving digital inclusion	<i>Central Bank</i>	None	<i>2026-2027</i>	<i>High</i>	<i>Ongoing</i>
3.7 Develop targets for digital financial inclusion (for example increasing number of online or mobile bank accounts)	<ul style="list-style-type: none"> For example, increasing the number of online or mobile bank accounts 	Improving digital inclusion	<i>Central Bank</i>	None	<i>2026-2029</i>	<i>low</i>	<i>Not yet started</i>
PILLAR IV: Transparency and market discipline							
4.1 Enhance mandatory ESG Disclosure Requirements in ESG Codes for Banks	<ul style="list-style-type: none"> Provide for mandatory requirements for ESG reporting (to the regulator) and public disclosure (to stakeholders such as depositors and investors) by banks and regulated entities. 	Enhancing disclosure and transparency for banks	<i>Central Bank/IFC</i>	None	<i>2024-2025</i>	<i>High</i>	<i>Not yet started</i>
4.2 Develop Guidance on Sustainability ESG Reporting and Disclosure	<ul style="list-style-type: none"> Develop guidance or regulation on format and content of Sustainability/ESG reporting and disclosure by banks and regulated entities. 	Improving the process of responding banks to the requirements	<i>Central Bank/IFC</i>	None	<i>2024-2025</i>	<i>High</i>	<i>Not yet started</i>
4.3 Mandate banks to publish a specific report on sustainability policies and practices.	<ul style="list-style-type: none"> Published report should include how the credit decision-making process considers ESG criteria, as well as steps taken to contribute to financing sustainable activities and projects. 	To attract investment opportunities	<i>Central Bank</i>	None	<i>2025-2026</i>	<i>Medium</i>	<i>Not yet started</i>

<p>4.4 Create a specific Website with Sustainable Finance Information and capacity building materials for banks and other regulated entities.</p>	<ul style="list-style-type: none"> The Central Bank will provide a website with all the relevant information on sustainable finance including: (a) this Sustainable Finance Roadmap (and any amendments and updates to the Roadmap); (b) materials and tools for sustainable finance capacity building; and (c) relevant reports and assessments of sustainable practices of regulated entities. 	<p>Creation of website</p>	<p><i>Central Bank</i></p>	<p>None</p>	<p>2023-2029</p>	<p>High</p>	<p><i>Ongoing</i></p>
<p>4.5 Develop Progress Measurement Tools to measure the sustainable performance of banks.</p>	<ul style="list-style-type: none"> The Central Bank will develop tools (e.g. a scorecard) to measure how well banks and related institutions have incorporated Sustainable Finance (ESG risk management, Sustainable lending) into their operations. 	<p>Issuance of Sustainable Finance Scorecard</p>	<p><i>Central Bank/IFC</i></p>	<p>None</p>	<p>2025-2028</p>	<p>Medium</p>	<p><i>Not yet started</i></p>



C. Next Steps

Launch of Sustainable Finance Roadmap of the Central Bank of Iraq (14th of Dec 2023)



البنك المركزي العراقي

Annex A: Journey of Sustainable Finance Development in Iraq

Year	Milestone	Responsible Entity
2018	Enactment of Corporate Governance Guide for Banks	Central Bank of Iraq
2018	Issuance of the Iraqi Sustainability Principles as part of the Corporate Governance Guide	Central Bank of Iraq
2019	Launch of Iraq Vision 2030	Ministry of Planning
2019	Corporate Governance Capacity Building for Financial Institutions	Central Bank of Iraq
2020	Formation of National Committee for Sustainable Development	Ministry of Planning
2020	Formation of an Iraqi deposit insurance company to protect depositors	Central Bank of Iraq
2021	Enactment of the ESG Scorecard for Iraqi banking sector	Central Bank of Iraq
2021	Launch of the voluntary Sustainability Guide	Central Bank of Iraq
2021	Launch of the Second Strategic Plan of the Central Bank of Iraq for 2021-2023	Central Bank of Iraq
2021	Formation of internal committee to establish guidelines on business sustainability for banks and sub-initiatives for strategic objectives	Central Bank of Iraq
2020	Donation of 44 Billion Iraqi dinar (\$36.9 million) to support the State's efforts to combat COVID-19	Central Bank of Iraq, Banks and companies
2022	Disclosure of the first ESG Scorecard Report for the Iraqi banking sector	Central Bank of Iraq
2023	Development of the first Sustainable Finance Roadmap for Iraqi banking sector and Nonbank Financial Institutions	Central Bank of Iraq