



MIDDLE EAST AND
NORTH AFRICA

Benchmarking Financial Sector Policies for Climate Risk Management and Green Finance

World Bank Group

MOROCCO
COUNTRY CLIMATE
AND DEVELOPMENT
REPORT (CCDR)
BACKGROUND NOTE

Contents

1. Introduction	3
2. Climate risk management.....	4
2.1 Governance, strategy, and capacity building for climate risk management	4
2.2 Risk identification, assessment, and monitoring.....	6
2.3 Supervisory framework.....	8
3. Green Finance	11
3.1 Governance, strategy, and capacity building.....	11
3.2 Disclosure and reporting	13
3.3 Green finance instruments.....	14
3.4 Greening public FIs	17
3.5 Greening CB operations.....	19
4. Concluding remarks	21

Introduction

A growing number of central banks and regulators, including the Central Bank of Morocco, Bank Al-Maghrib (BAM) and Moroccan Capital Markets Authority (AMMC), have issued warnings on the systemic impacts of climate change on the financial system and economy. Preliminary analysis suggests that the Moroccan banking sector is already exposed to notable climate physical risks, primarily through transmission channels related to droughts and flooding. At the same time, Moroccan banks could be increasingly exposed to climate transition risks, given Morocco's growing ambition to decarbonize the economy, as well as international pressures such as changes in investment preferences and regulations such as carbon border adjustments. These climate impacts, combined with other risks such as the covid-19 pandemic and biodiversity loss, could lead to system-wide risks of failures within Morocco's financial system.

The financial sector could play a key enabling role in mobilizing private capital toward climate objectives. Morocco's financial sector is large, with financial sector assets standing at 139 percent of GDP at the end of 2019. Given its systemic role, the financial sector could be key in enabling the real economy's transformation toward green growth. Many countries are looking for innovative ways to green their financial markets, for example, by developing green finance instruments such as green bonds and green loans. On the other hand, since perception of risks is a key determinant of financial behavior, enhancing awareness and management of climate risks could play an equally important role in driving capital away from polluting industries and toward green growth.

The agenda to green the financial sector has gained unprecedented momentum in recent years. For example, the Central Banks and Supervisors' Network for Greening the Financial System (NGFS), has grown to 121 member organizations and 19 observers (including the World Bank Group).¹ The member countries of the IFC-facilitated Sustainable Banking and Finance Network (SBFN), representing US\$43 trillion (86 percent) of the total banking assets in emerging markets, have launched over 200 national policies, roadmaps, voluntary principles, guidelines, and tools to enable sustainable lending and investments. All major standard setting bodies have also started to consider and publish analyses on climate financial risk and green finance. Notably, the Basel Committee on Banking Supervision (BCBS) recently issued principles for the effective management and supervision of climate-related financial risks which will have a large influence on the banking sector's response to climate change.² Within the private sector, the Glasgow Financial Alliance for Net Zero (GFANZ) was launched to bring together 450 financial firms covering assets of over \$130 trillion to accelerate the transition to a net-zero global economy.

This note provides a first explorative analysis of where Morocco stands in terms of greening the financial sector. The analysis is intended to inform Morocco's Country Climate and Development Report (CCDR) by assessing the key gaps and capacity building needs for greening the financial sector. CCDR is the World Bank Group's (WBG) core diagnostic for assessing the interplay between climate and development and identifying priority climate actions across all key sectors. More extensive data collection and consultation with relevant authorities is envisioned at a later stage to provide a more detailed assessment of climate risks and opportunities to deepen green finance markets.

The key objective of the analysis is to benchmark Morocco's policies against global good practices. The policy toolkits covered in the benchmarking exercise are based on the international good practices, the World Bank's experience in supporting countries on the agenda through technical assistance and lending programs, and the World Bank's report, Toolkits for Policymakers to Green the Financial System. The benchmarking exercise is divided into two broad categories: (a) supervisory and regulatory response to manage climate risks; and (b) policy actions to deepen green financial markets. The preliminary analysis is based on consultations with key policymakers, desk-based research, as well as good practice notes, such as those provided by NGFS, WBG and major standard-setting bodies.

The analysis focuses on the banking sector and capital markets. The banking sector is the largest segment of Morocco's financial sector, with 19 banks accounting for 89 percent of total financial sector assets and 6 offshore banks. The banking sector is therefore the focus of the benchmarking analysis, considering the size and importance of the sector. Capital markets are also covered in the benchmarking exercise, especially in the context of the green finance toolkits.

¹ As of October 2022.

² BCBS (2022), "Principles for the effective management and supervision of climate-related financial risks"

Climate risk management

There is growing recognition that climate physical and transition risks could lead to material impacts on the financial sector. Physical risks stem from both the chronic and acute impacts of climate change and natural disasters – such as sea level rise, droughts, floods, and hurricanes – on the value of real assets and their underlying financial instruments. Transition risks originate from efforts to mitigate climate change and improve environmental conditions by greening the economy, which may create economic adjustment costs in a broad range of sectors. These costs can create financial risks for firms and investors that did not anticipate the transition and can ultimately jeopardize the functioning and stability of the financial system. To respond to these risks, an increasing number of central banks and supervisors are starting to integrate climate risks into their supervisory framework in order to encourage financial institutions to better assess, disclose and manage climate risks. Standard setting bodies are also starting to introduce guidance and principles to promote a common understanding around how climate-related financial risks can be effectively managed. The Basel Committee on Banking Supervision (BCBS) recently issued key principles for the effective management and supervision climate-related financial risks, which provides an important baseline for banks and supervisors' practices related to climate risks. Building on this global trend, this section aims to assess the extent to which financial sector authorities have taken steps to effectively manage climate risks for the financial sector in Morocco.

2.1 Governance, strategy, and capacity building for climate risk management

The Central Bank of Morocco, BAM, has identified climate risk management as a key priority. BAM's 2020 annual report has included as one of its key goals to integrate climate change into the central bank's mission. During COP26 in November 2021, BAM also announced a series of ambitious plans for greening the financial sector³.

Various international collaborations have supported the agenda of climate risk management. For example, BAM joined NGFS in 2018 to share and build knowledge on climate risk integration in supervision and central bank operations⁴. As a member of the NGFS steering committee, BAM has endorsed a set of recommendations for supervisors and central banks to better integrate climate risks in their operations. BAM and AMMC are also active members of the IFC-facilitated Sustainable Banking and Finance Network (SBFN)⁵ which brings together regulators, central banks, and industry associations from emerging markets to advance the sustainable finance agenda. In addition, AMMC is a member of the GFANZ Africa Network Advisory Board and chairs the IOSCO Africa / Middle East Regional Committee (AMERC) subgroup on sustainable finance.

While a roadmap for aligning the financial sector with sustainable development goals exists, public authorities have yet to publish a detailed strategy for climate risk management in the financial sector. In 2016, BAM, AMMC, the Ministry of Economy and Finances (MOEF) and other key actors in the Moroccan financial sector, developed a roadmap for aligning the Moroccan financial sector with sustainable development (see section 3.1 for further details). However, this strategy focuses on the action plan for promoting sustainable finance more broadly and does not detail the approach on climate risk management. The roadmap does include an axis on “socio-environmental risk governance”, which includes commitments to integrate sustainability factors in banks' internal rating systems and identify the carbon risk included in the asset portfolio and asset its impact. However, these commitments mainly focus on the impact of lending and investment decisions on climate and environmental factors, rather than the impact of climate risks to banks' businesses and balance sheet. Furthermore, the reference to climate risk in the

³ BAM (2021). “Individual pledge at COP26 – BAM's engagements to accelerate the greening of the financial sector”

⁴ Network for Greening the Financial System (2019). First comprehensive report: A call for action – Climate Change as a source of financial risk.

⁵ AMMC currently serves as a co-chair of the SBFN Measurement Working Group, leading the development of the SBFN Sustainable Finance Measurement Framework and Methodology and its 3rd Global Progress Report.

roadmap is relatively high-level, and does not include specific policy objectives, measurable actions and policies, or metrics in relation to climate risk management. Nonetheless, as mentioned above, BAM launched a series of high-level pledges at COP26 in 2021, which describes key priorities for managing climate risks for the financial sector.⁶ This includes ambitious objectives, such as issuing guidelines to the banking sector regarding stress tests and reporting on climate risks, conducting climate risk assessments, and capacity building. The description of the pledges, however, remains relatively high-level. Moving forward, it is advisable for BAM, AMMC and other authorities to develop a strategy which includes more detail on how objectives related to climate risk management will be achieved (e.g., by including results indicators, milestones, and work plans).

BAM has taken steps to define the internal governance structure for climate risk management and ensure that adequate resources are allocated to implement policy actions. In 2019, BAM established an internal unit dedicated to climate risk and green finance within its banking supervision department. The objective of this division is to develop a strategy and supervisory framework for green finance and climate risk management. The division will also be responsible for assessing and tracking key climate and environmental risks; and deploying preventive or corrective actions to mitigate these risks.

While there is no dedicated taskforce on climate risk management, the Sustainability Working Group was established by BAM and the Moroccan Bankers Association (GPBM) to coordinate the sustainable finance agenda more broadly. The Sustainability Working Group has been meeting regularly since COP22. The Working Group's primary focus has been on issues related to green/sustainable finance, and discussions on climate risk management are still at the very early stages. Moving forward, having a dedicated taskforce on climate risk management or more focused discussion on climate risk within the Sustainability Working Group may be important to facilitate decision-making and coordination across stakeholders, including relevant ministries, the central bank, financial regulators, financial sector participants and technical experts. Such a national coordination mechanism should be aligned with other relevant financial sector committees (e.g., the systemic risk committee).

Various training and capacity building support has been provided to BAM and AMMC's internal staff as well as financial institutions. However, in general, authorities and financial institutions' expertise on climate risk management remains limited. In terms of inhouse capacity building for supervisors on climate risk management, BAM has largely relied on training that has been provided through the NGFS and the technical assistance program with the World Bank which includes a component on training and awareness. Some climate risk capacity building and training to the banking sector has also been provided by BAM, with the support of the World Bank, the European Bank for Reconstruction and Development (EBRD), GPBM and other partners. Broader capacity building on green finance as well as ESG disclosure and reporting is provided to supervisors and financial institutions (see section 3). For example, AMMC launched a project with IFC, which aims to build the authority's capacity in ESG assessments and reporting (see section 3.2) In addition, AMMC also takes part in various trainings that are organized by IOSCO's AMERC and provides capacity building to financial institutions on green finance and ESG disclosure and reporting (see section 3.1 and 3.3).

⁶ BAM (2021), "Individual pledge at COP26 – BAM's engagements to accelerate the greening of the financial sector"

Table 1. Overview of benchmarking of governance, strategy, and capacity building for climate risk management

Toolkit	Examples of good practice	Practice in Morocco
Governance and strategy	<ul style="list-style-type: none"> • Commitment and accountability of the authority's board and governors • Developing a supervisory strategy/roadmap (endorsed by board/governors) • Remuneration policies to stimulate behavior consistent with managing climate and environmental financial risks • Sponsorship from senior executive • Establishing internal governance structures and operating model⁷ • Public reporting on governance approach and strategy 	<ul style="list-style-type: none"> • There is a broader roadmap developed in 2016 for aligning the financial sector with sustainable development. BAM also published a high-level pledge at COP26, with more ambitious objectives associated with greening the financial sector • A more detailed governance framework and strategy for climate risk could be considered in the future. • BAM established an internal unit dedicated to climate risk and green finance.
International network	<ul style="list-style-type: none"> • Knowledge building and cooperation (with national policymakers, international authorities and external experts) • Membership and participation in international networks 	<ul style="list-style-type: none"> • BAM is a member of NGFS and SBFN • BAM is chairing the Working Group of the Alliance for Financial Inclusion on inclusive green finance • AMMC is a member of SBFN, IOSCO's taskforce on sustainable finance and the Sustainable Stock Exchanges Initiative, and the GFANZ Africa Network Advisory Board. AMMC also chairs the IOSCO AMERC subgroup on sustainable finance.
National taskforce	<ul style="list-style-type: none"> • Bring together key stakeholders to discuss and implement key policy topics • Establishing a risk focused industry dialogue or platform 	A Sustainability Working Group has been established by BAM and GPBM. However, discussion on climate risks is still in the early stages.
Capacity building	<ul style="list-style-type: none"> • Raising internal awareness and building staff member capacity • Raising awareness and build expertise among financial institutions 	

2.2 Risk identification, assessment, and monitoring

BAM, with the support of the World Bank, is conducting a climate risk analysis and stress test for the banking sector. The analysis outlined the key climate physical and transition risk drivers and their direct/indirect transmission channels to Morocco's banking sector. The report also developed a set of physical and transition risk scenarios to project how climate risks for the banking sector might evolve in the future. In addition, the report included a combination of macroeconomic modelling and preliminary stress tests to quantify the potential financial risks and macro-financial outcomes under the various scenarios identified that are most relevant to Morocco's context.

There is limited data and information available to monitor and track climate financial risk exposures for the banking sector. Data limitation was identified by banks as one of the key challenges, both in terms of facilitating climate disclosure and reporting and assessing climate risk internally. Banks indicated that they either do not have the mechanisms in place to collect the required data, or there are issues related to the availability, quality, or granularity

⁷ Depending on the nature of the institution, the operating model could be different: internal network, dedicated unit, hub-and-spokes model, see NGFS Guide for Supervisors (2020) for more details.

of the data. For instance, more granular data on sectoral credit exposures and GHG emissions is needed to deepen the analysis on transition risks. Reported GHG data suffers from a significant time lag (e.g., the last Biennial Update Report to the UNFCCC was published in 2019) and is not sufficiently granular or aligned with the classification of financial sector exposure data. Similarly, there are also data limitations that hinder a detailed physical risk assessment. For example, there is no granular, comparable assessments that map the socioeconomic impacts of climate physical risk at the country level. While some literature exists, most of the available estimates do not include any measure of climate adaptation efforts, which is an important indicator of climate vulnerability.

BAM has taken steps to build internal expertise to conduct climate risk assessments. Estimating climate risks is a complex task, given the uncertainties and interlinkages of climate, macroeconomic and financial impacts. Staff with specialized climate expertise is needed to ensure that climate risk assessments are holistic and reflect the latest understanding on climate science and policy. BAM, through the stress testing exercise with the World Bank and training programs with NGFS, is building inhouse expertise on climate science and climate risk stress testing, which is needed to assess climate impacts on financial stability on a structural basis.

Macroprudential stress testing at BAM currently does not include environmentally or climate-related scenarios. Given the severe impacts of natural disasters and climate change, BAM may consider developing more specific stress tests on physical risk events. Over time, transition risk stress testing could also be applied, if the data limitations described above could be addressed.

Table 2. Overview of benchmarking of risk identification, assessment, and monitoring

Toolkit	Examples of good practice	Practice in Morocco
Climate risk analysis	<ul style="list-style-type: none"> Conducting a (quantitative and/or qualitative) risk assessment Ensuring adequate data availability and reporting by financial institutions (e.g., regional and sectoral breakdowns of exposures) Analysis of exposures to climate physical and transition risks Developing (macro and micro prudential) stress-testing capabilities and exercises Monitoring supervised institutions' exposures⁸ 	<ul style="list-style-type: none"> BAM, with the support of the World Bank, is conducting a high-level stress test to evaluate climate physical and transition risks for the banking sector. BAM has been monitoring banks' climate risk management practices since 2016. Data limitation is a key challenge. BAM is taking steps to build inhouse climate risk expertise. BAM's macroprudential stress test does not consider climate scenarios Over time, other authorities (e.g., AMMC) could also build their capacity to assess the impact of climate risks on their supervised entities.

2.3 Supervisory framework

In March 2021, BAM issued the Directive on the management of climate and environmental financial risks.⁹ The Directive sets out, at a high-level, BAM's expectations to the banking sector on integrating climate and environmental risks in banks' strategies and governance, risk management, training and awareness and reporting frameworks. The Directive requires banks to develop and implement a climate risk strategy and governance framework; risk management practices (including the use of climate scenario and stress test analysis); training program for both employees and clients; and disclosure practices for climate risks. The Directive is aligned with international good practice in this field, following a similar structure to guidance published by authorities in other countries. Even

⁸ In Europe, supervisors are awaiting guidance from the ECB and the ESRB, which are jointly developing a pilot risk-monitoring framework for climate systemic risks in the financial sector, including the development of risk indicators.

⁹ Regulatory Directive n° 5/W/2021

though the Directive is high-level by nature, it is expected to provide an important signal to incentivize banks to enhance their management of climate and environmental risks. To date, most countries' supervisory guidance in the area of climate and environmental risks has been intentionally high-level because many supervisors and financial institutions are still in an early phase of considering these risks. Over time, BAM intends to move beyond high-level expectations toward setting more prescriptive and detailed expectations in response to climate risks.

Building on the high-level Directive, a key priority in the coming year for BAM is to issue more detailed supervisory guidance on climate-related stress testing and scenario analysis. Given the forward-looking nature of climate risks and the inherent uncertainty associated with these risks, scenario analysis and stress testing could be important tools to shed light on the potential impact of severe but plausible climate scenarios that may occur but for which no historical precedent is available. With the support of the World Bank, BAM is in the process of designing microprudential guidelines for banks on scenario building and risk quantification, as a follow-up from the recently issued Climate Risk Directive. It is envisioned that the outcomes of banks' stress test/scenario analysis would be reported to BAM. At this stage, the results are intended to be explorative in nature to inform BAM's understanding of risks faced by banks, rather than to inform adjustments in capital requirements for banks.

Another priority for BAM in the coming year is to develop supervisory guidelines on disclosure and reporting for banks. This is intended to provide more detailed guidance on how and what data banks need to disclose and report in relation to climate risks, in line with the key requirements set out in the Directive that was issued in March 2021. The details on the scope of the supervisory guidelines have not yet been determined. However, based on guidelines produced in other countries, supervisors often expect financial institutions to disclose information and metrics on climate risks they are exposed to, the potential impact of climate risks on the safety and soundness of the institution and proposed mitigation and management strategies to respond to key climate risks. Disclosure and reporting guidelines can be voluntary or mandatory in nature. Supervisors are generally encouraged to align the guidelines with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), which set out recommendations in four key areas: governance, strategy, risk management and metrics and targets, which can be adapted to local contexts. In 2019, BAM publicly supported the TCFD and called banks to align with TCFD's recommendations. Beyond TCFD, the International Sustainability Standards Board (ISSB) of the International Financial Reporting Standards (IFRS) is also developing global guidance on sustainability and climate disclosure and reporting, which BAM should consider aligning with once the ISSB guidance is finalized.

BAM may consider developing more detailed supervisory guidance for banks in other areas, such as governance, strategy and risk management at a later stage. Since 2016, BAM has been tracking the progress of banks' climate risk practices through surveys and consultations. These surveys are intended to inform the scope and structure of follow-up guidance to the Directive and BAM's broader supervisory practice. A phased approach is taken to develop the climate risk supervisory framework in order to ensure banks' capacity on the topic could build over time. While the priority is to first focus on supervisory guidelines for stress testing and disclosure, BAM has indicated that more detailed supervisory guidelines for other areas, such as, governance, strategy, and risk management may also be developed at a later phase.

In 2019, AMMC issued the Circular 03/19 which requires issuers to disclose information on ESG and climate risks. The disclosure guidelines require issuers to disclose basic information on climate risks, in line with international guidance, such as the Carbon Disclosure Standards. In 2021, AMMC announced that it is partnering with IFC to update the Circular 03/19 to include more comprehensive ESG reporting by issuers, including in the context of climate risks of investments in line with the TCFD. Further details of AMMC's efforts to enhance climate and ESG disclosure and reporting are discussed in section 3.2.

BAM has expressed interest in developing a (simplified) risk taxonomy to support the assessment of climate-related exposures and vulnerabilities. BAM and the World Bank may explore whether a risk-based taxonomy could be developed. The climate risk taxonomy could lay out a classification system to identify activities, sectors or assets which could face heightened climate-related or environmental risks. Such a taxonomy would be different from a national green taxonomy, which would cover a broader scope and would likely be led by the Ministry of Finance, in close collaboration with other line-ministries and agencies (see further details in section 3.3).

In the long run, BAM will explore opportunities to embed climate risks into day-to-day supervisory tools and actions. At this stage, BAM has not yet made use of its existing supervisory toolbox to assess and mitigate climate and environmental risks. However, in line with emerging global practices¹⁰, BAM is exploring different ways of integrating climate risks into its supervisory practice, for example:

- **BAM is exploring the possibility of reforming its internal assessment system (SANEC) to consider the inclusion of climate risks.** The system is being updated to align with the Supervisory Review and Evaluation Process (SREP) and guidelines from the European Banking Authority. The system is intended to provide a rating/score for the supervised banks, which could also be informed by climate considerations. The inclusion of “Business model analysis” as a new category provides further scope to factor in climate issues. To inform this work, BAM conducted an initial assessment and pilot exercise to evaluate the potential integration of climate risk in banks’ governance, internal control, risk management, IT systems and disclosures.
- **BAM is exploring opportunities to integrate climate risk in the assessment criteria of the Internal Capital Adequacy and Assessment Process (ICAAP)¹¹ process, which has recently become a standalone component of the BAM supervisory process.** Integrating climate risks into ICAAP may involve various components. For example, it may involve issuing guidance on what material exposures relating to climate change should be covered by banks; an assessment of how banks have determined the materiality of climate risk exposures in the context of their business; and sensitivities to longer term business plan.

Table 3. Overview of benchmarking of the supervisory framework

Toolkit	Examples of good practice	Practice in Morocco
Supervisory guidance	<ul style="list-style-type: none"> • Developing and publishing supervisory guidance including on governance, strategy, risk management and disclosure • Providing supervisors with a toolkit for supervisory engagement • Assessing and monitoring implementation of expectations 	<ul style="list-style-type: none"> • BAM has issued the high-level Directive for the management of climate and environmental financial risks. • A priority for BAM in the coming year is to develop more detailed supervisory guidance in two areas: (a) stress testing and scenario analysis; and (b) disclosure and reporting. • AMMC developed a Circular which requires issuers to disclose climate and ESG-related information (see section 3.2 for details)
Supervisory practice	<p>Embedding the consideration of climate risks into:</p> <ul style="list-style-type: none"> • Supervisory tools & methods (e.g., integrating climate risks into ICAAP) • Internal capacity building • Integration into supervisory review and monitoring processes 	<ul style="list-style-type: none"> • BAM has not yet integrated climate risks into its supervisory practice. However, it is considering integrating climate risks in its SREP, which will be effectively deployed in early 2023. A pilot assessment exercise has already been conducted. • AMMC is monitoring issuers’ ESG disclosure and practices and is working on a systematic approach to assess and enhance the consistency of these disclosures (see section 3.2)

¹⁰ For further details, refer to Toolkit 7, “Incorporate Climate-Related and Environmental Risks into Supervisory Practice” of the World Bank report “Toolkits for Policymakers to Green the Financial System”

¹¹ The purpose of the ICAAP is to ensure that banks have internal procedures and processes in place to ensure that it has adequate capital resources to cover all material risks.

Green Finance

The financial sector has an important role to play in mobilizing the required finance to reach countries' climate goals. Low-income and middle-income countries are estimated to need between \$1.7 and \$3.4 trillion in climate finance per year by 2030 to support their climate action.¹² Investment needs could, however, be even higher if interventions are delayed, spending is inefficient, or policies are inadequate. While climate finance flows have steadily increased over time, investments need to scale up substantially to meet the climate goals under the Paris Agreement. Given the limited availability of public and concessional finance, commercial banks and non-banks financial institutions, which manage over \$400 trillion of assets globally, can play a critical role in guiding capital towards climate goals. Financial institutions can engage in green finance markets, which rely on an array of mechanisms (e.g., debt, bond, equity) to stimulate finance for green projects. Globally, it has been estimated that the green bond market grew by more than \$500 billion in 2021, a 75 percent increase on prior year volumes.¹³ At the same time, green and sustainability-linked loans have also surged in recent years, with over USD 681 billion green and sustainability-linked lending issued last year (a 275 percent increase over 2020)¹⁴. The market for equity from sustainable companies also increased by 45 percent in 2021, reaching a record high of \$48 billion according to data provider Refinitiv.¹⁵ Building on global good practices, this section analyzes the extent to which regulatory tools and incentives have been used by authorities to deepen green finance markets in Morocco.

3.1 Governance, strategy, and capacity building

Moroccan authorities published a roadmap for aligning the financial sector with sustainable development in 2016. The development of the roadmap was undertaken by key actors of the Moroccan financial sector, including BAM, AMMC, ACAPS, the Ministry of Economy and Finances (MEF), Casablanca Finance City Authority, Casablanca Stock Exchange, as well as the Moroccan Banking Association and the Moroccan Federation of Insurance and Reinsurance Companies. The key objective of the roadmap was to set out actions and measures needed to ensure a coordinated approach to align the Moroccan financial sector (including banks, insurance companies and capital markets) with sustainable development. The roadmap was an important signal of Morocco's political commitment on the sustainable finance agenda. The roadmap also served as guiding principles for authorities such as BAM and AMMC, and industry associations to develop strategies, policies, and mechanisms within their mandates to contribute to the sustainable finance agenda. The roadmap revolves around five themes: (a) risk-based governance to socio-environmental risks; (b) develop sustainable financial instruments; (c) promote financial inclusion as a driving force for sustainable development; (d) ensure market transparency and discipline. Each of these axes is further broken down by sector (namely banking, insurance, capital market). BAM and other authorities, including AMMC and ACAPS, are in the process of updating the 2016 sustainable finance roadmap. The roadmap is expected to be broad, covering policy areas related to BAM (financial supervision) and policy actions to be taken by line ministries (e.g., taxonomy, fiscal policy).

BAM and AMMC have taken steps to establish the internal structure and governance framework for green / sustainable finance. As mentioned in section 2.2, BAM has set up a dedicated unit for climate risk and green finance. In addition to coordinating BAM's climate risk management approach, the division is also responsible for coordinating the implementation of green/sustainable finance practices. While BAM does not have an explicit mandate on green finance, green finance falls under BAM's mandate since BAM's mandate extends beyond price and financial stability objectives and covers broader public policy priorities such as financial inclusion and consumer

¹² Staff calculations based on IPCC AR6 WG3 2022 for climate mitigation needs and United Nations Environment Program (UNEP). 2021 for Adaptation - Adaptation Gap Report 2021: The gathering storm – Adapting to climate change in a post-pandemic world. Nairobi: UNEP. World Bank (2022). Achieving Climate and Development Goals: The Financing Question.

¹³ Climate Bonds initiative (2022). Sustainable debt tops \$ 1 trillion in record breaking 2021, with green growth at 75%: new report.

¹⁴ LTSA (2022). Sustainable lending continues to surge.

¹⁵ Refinitiv (2022). Sustainable finance continues to surge in 2021.

protection. BAM aims to position itself as a leader in green finance and is developing an internal roadmap that will further articulate BAM's role in green finance. Green finance is similarly a core priority for the MEF. For example, MEF has been actively supporting the development of green/sustainable finance by exploring the development of a legal and regulatory framework and incentive mechanisms favorable to the financing of green/sustainable projects. In addition, the topic of green/sustainable finance is embedded in AMMC's strategic planning and governance planning since 2016.¹⁶ Action plans are assigned to specific divisions within AMMC, and achievements are monitored regularly. Information is included in the reporting to AMMC's board of directors as well as public documents (such as press releases and reports). Based on these action plans, AMMC has undertaken a series of initiatives to promote sustainable finance in capital markets in Morocco, as well as in the broader African and Middle Eastern regions, for example through the Marrakech Pledge and the sustainable finance working group of the IOSCO Africa / Middle East Regional Committee (AMERC).

Moroccan authorities have taken full advantage of international networks to advance the agenda on green/sustainable finance. AMMC is part of a broad range of international networks, such as the SBFN, the UN Sustainable Stock Exchanges Initiative (SSE) and the IOSCO Sustainable Finance Taskforce. AMMC has also been active in promoting collaboration at the regional level. For instance, in line with the COP22 Marrakech Pledge, AMMC launched the "Program on Implementing Green Capital Markets in Africa". A white paper¹⁷ was published in 2019, with the support of the Toronto Center, to provide recommendations for greening capital markets in the African region based on international good practices. In 2021, with the support of IFC, AMMC launched an internal capacity building program for staff, developed an assessment tool for ESG reporting, and organized training and capacity building events on green bonds for issuers and local verifiers. In addition, MEF participates in several platforms related to green finance, including the Coalition of Finance Ministers for Climate Action.

While a broad framework for green/sustainable finance exists, authorities have yet to develop a national climate finance strategy. Several countries have developed national climate finance strategies to estimate the current/projected financing gap to meet the country's climate mitigation and adaptation targets, and how different sources of finances should be mobilized to close the climate financing gap. Such a strategy is different from a roadmap for aligning the financial sector with sustainable development because a national climate finance strategy is intended to assess the role of different stakeholders (beyond the financial sector) in supporting the implementation of climate objectives. Designing such a strategy involves an inclusive engagement with various line ministries, agencies and other stakeholders to understand their role and capacity to deliver the needed financial resources to meet a country's climate goals. The strategy usually also identifies a pipeline of bankable projects that may require financial support for implementation. It also assesses whether the country's policy and regulatory framework provide an adequate enabling environment for climate investments. The strategy is likely adjusted over time as insights, technologies or priorities develop.

Toolkit	Examples of good practice	Practice in Morocco
Strategy and roadmap	<ul style="list-style-type: none"> Outline the long-term direction to green the financial system Identify development needs to advance the country's green finance agenda 	<ul style="list-style-type: none"> Authorities issued a roadmap to align the financial sector with sustainable development AMMC integrated sustainable finance in its two consecutive strategic plans
International Network	<ul style="list-style-type: none"> Knowledge building and cooperation (with national policymakers, international authorities and external experts) Membership and participation in international networks 	<ul style="list-style-type: none"> AMMC and BAM are members of various international initiatives such as IOSCO, GFANZ, SBFN, NGFS and SSE (see also section 2.1) AMMC published a white paper on greening capital markets in Africa

¹⁶ The AMMC has included sustainable finance in its 2017-2020 and 2021-2023 strategic plans. The strategic plans encompass several measures that aim to foster sustainable finance developments in Morocco (e.g., in relation to taxonomy, capacity building, guidance on labelled bonds' use of proceeds and impact reports, methodology for carbon footprint disclosure).

¹⁷ AMMC and Toronto Center (2016). Program on implementing green capital markets in Africa: A White Paper.

National Taskforce	<ul style="list-style-type: none"> Bring together key stakeholders to discuss and implement key policy topics 	Sustainability Working Group was established by BAM and GPBM
National Climate Finance Strategy	<ul style="list-style-type: none"> Estimate the current/projected financing gap to reach climate goals Identify the role of different funding sources (private, public, international etc.) to close the financing gap Develop a strategy to mobilize the needed finance to reach climate goals 	None identified

3.2 Disclosure and reporting

In June 2019, AMMC issued the Circular No. 03/19 which includes mandatory requirements for all issuers to publish an ESG report with their annual financial reports. The mandatory circular targets issuers with public offerings (alternative market issuers have waivers for some of the reporting requirements). AMMC requires issuers to align their ESG reporting with internationally recognized reporting standards (without specifying which standard) and requires issuers to disclose quantitative and qualitative KPIs.¹⁸ The Circular also includes provisions on prospectus requirements for the issuance of green bonds and similar labelled instruments. The first mandatory ESG reports were published for the year 2019 (in April 2020). According to AMMC's review, there was almost a 100 percent compliance with the ESG reporting requirements. AMMC's review, however, suggested that issuers followed various standards to disclose ESG information which reduced the comparability of the data. Against this backdrop, IFC is providing capacity building to help companies enhance the consistency and quality of their ESG disclosure and reporting, in line with AMMC's requirements. AMMC, with the support of IFC, is also developing a framework to continuously monitor and track compliance with the ESG reporting requirements¹⁹.

The AMMC Circular's climate and environmental disclosure requirements are relatively general. The Circular does not require issuers to disclose climate information based on any specific framework (e.g., TCFD) and the requested climate disclosure is relatively high-level. Under the Circular, issuers are required to present and quantify business activities that have an impact on the environment; and describe the policies that have been implemented to limit environmental impact. Moving forward, AMMC will consider the feasibility of aligning with specific disclosure and reporting frameworks, such as the emerging sustainable and climate disclosure framework that is being developed by the ISSB of the IFRS.

AMMC's 2018 Green, Social, and Sustainability Bond Guidelines includes various disclosure requirements. As further discussed in section 3.3, AMMC issued various guidelines for the issuance of green, social and sustainability bonds. These guidelines include various disclosure requirements. For example, the guidelines ask issuers to publish annual updates on the performance and impacts of sustainability instruments and obtain an independent review of metrics reported annually in relation to the social and environmental outcomes and impacts achieved through the sustainability instruments. Furthermore, the issuers need to report to AMMC and publicly disclose the abovementioned information.

Prior to the introduction of mandatory ESG reporting requirements, AMMC also published guidelines on Corporate Social Responsibility (CSR) and ESG reporting for publicly traded companies in 2016 – 2017. The purpose of these guidelines is to promote a culture of CSR across publicly traded companies and prepare them for future ESG reporting obligations.

¹⁸ Before the issuance of this circular, and since 2016, the AMMC published several guidelines on sustainability themed financing tools (green bonds, social bonds, sustainability bonds, gender bonds) as well as ESG reporting and corporate social responsibility.

¹⁹ The project aims to develop a systematic approach for assessing the ESG reporting practices of issuers. Based on the gaps identified, the project will recommend potential ways in which AMMC could enhance the quality and consistency of ESG reporting over time.

Moroccan authorities have not yet developed a national green taxonomy. A green taxonomy could offer a uniform way to determine what economic activities can be considered environmentally sustainable. It can offer a variety of functions, including facilitating comparable disclosures and improving systems for tracking and measuring green finance flows. It could also be used by banks and other financial institutions to create new financial products (e.g., green bonds or labelled Exchange Traded Funds). Moroccan authorities have not yet developed a green taxonomy at this stage but are exploring next steps to do so as part of the updated sustainable finance roadmap (see section 3.1).

Toolkit	Examples of good practice	Practice in Morocco
Disclosure and reporting standards	<p>Include disclosure requirements for financial institutions and corporates. Core elements of the disclosure include:</p> <ul style="list-style-type: none"> • Governance around climate risks and opportunities • Impact of climate risks and opportunities on the organization's business, strategy and financial planning • Climate risk management process • Metrics and targets used to assess and manage climate risks and opportunities 	<ul style="list-style-type: none"> • In June 2019, AMMC issued the Circular No. 03/19 which includes mandatory requirements for all issuers to publish an ESG report with their annual financial reports. Before the issuance of the Circular, AMMC also issued a set of guidelines on labelled instruments and ESG reporting • AMMC has launched a project with IFC to assess and enhance the quality and consistency of issuers' ESG disclosure and reporting.
Green taxonomy	<ul style="list-style-type: none"> • Set up working group(s) led by relevant authority/steering committee • Define the scope and objectives • Specify sectors or activities and develop technical screening criteria or determine prohibited activities • Conduct stakeholder consultations at different stages • Outline disclosure and reporting guidelines • Monitor progress and update taxonomy as needed 	None identified

3.3 Green finance instruments

With the support of IFC, AMMC issued green bonds guidelines²⁰ in 2016 to establish the ground rules and operational framework for green bonds. The guidelines describe the principles and actions needed at different stages of issuing a green bond, including in relation to the use of proceeds, evaluation and selection of eligible projects, management of proceeds, external reviews, reporting and authorization. In 2018, AMMC published additional guidance on green bonds, and expanded the scope of guidelines to include Green, Social and Sustainability Bonds. In 2021, AMMC also published the Gender Bonds Guidelines, which is the first gender-specific bond guidelines issued in EMDEs.

AMMC relies on independent reviews and public disclosure to promote the integrity of the green bond market. AMMC's Green Bond Guidelines take a principle-based approach to avoid overburdening issuers. Instead of taking a formal position on the integrity of the green bond, AMMC relies on external third-party reviews before issuance and throughout the life of the bonds. AMMC also requires issuers to publicly disclose annual updates from the issuer on the performance and impact of the green bonds. In other economies such as the EU, authorities are requiring green bonds to be aligned with not only international guidance, such as the ICMA Green Bond Principles, but also a national green taxonomy, to further ensure the integrity of green bonds. In Morocco, there is no formal definition of green investments as a green taxonomy is not yet in place (see section 3.2).

²⁰ AMMC. Green Bonds Guidelines

²¹ For example, according to the Climate Bonds initiative, as of September 2022, total green bonds issued amounted to \$334 billion in the United States, \$250 billion in China and \$189.7 billion in France.

To incentivize the adoption of green bonds and promote sustainable finance in general, AMMC provided capacity building to financial institutions, and reduced the approval fee to issue green bonds. The Casablanca Stock Exchange also established an ESG benchmark index to promote ESG best practices among publicly traded companies. While the Green Bond Guidelines were an important first step in the development of green bond markets, Morocco still faces various challenges that limit the growth of green bond markets at scale. According to authorities, Morocco's total green bond issued amounted to \$0.5 billion, which is still much smaller than markets in other larger, more advanced economies²¹. In Morocco, a key challenge identified from the supply side is the perceived high costs of issuance, due to the high cost of complying with the standards, securing an independent review, as well as the cost of tracking and reporting on the underlying investments. Another barrier identified from the demand side is that capital providers do not have enough incentives or obligation to participate in green investments. To respond to some of these challenges, AMMC organized a series of capacity building events for key actors (e.g., issuers, auditors, advisors) to stimulate interest in the labelled bond market. Furthermore, a reduced AMMC approval fee was adopted as an incentive to promote the issuance of green and other sustainability-related bonds. In addition, the Casablanca Stock Exchange established the "Casablanca ESG 10" as an ESG benchmark index. The ESG index is composed of the 10 best performing issuers in ESG, based on an assessment by an independent third party. The purpose of the index is to promote ESG best practices among publicly traded companies in order to attract a new stream of socially responsible investors. Other incentive mechanisms for labelled bonds used in other countries (Box 1), such as concessionary funds, aggregation and securitization, and tax incentives, have not yet been implemented in Morocco. Further analysis could be conducted to assess the relevance of these incentive mechanisms in the Moroccan context.

Box 1. Incentive mechanisms to stimulate the labelled bond market²²

In other countries, incentive mechanisms that have been used to promote green bonds include:

- Concessional funds to support capacity building or offset part of the fixed costs of issuance.
- Aggregation and securitization so that assets are packaged to reach the size that investors are demanding.
- Some regulators also work with stock exchanges to share knowledge and build capacity of existing issuers that want to issue labeled bonds. Some stock exchanges have programs to reduce listing requirements for labeled bonds and will support new and existing issuers to help bring these bonds to the exchange.
- Some authorities have introduced tax incentives for both issuers and investors to enhance the attractiveness of green bonds. However, the appropriateness of introducing tax incentives varies and is dependent on the country context.
- Some regulators provide guidance for investment funds or sovereign wealth funds to promote demand for green bonds.
- Although still subject to different views, some central banks have signaled they may include green criteria in their asset purchasing programs, particularly as these programs have expanded in light of COVID-19's impact on global capital markets. By putting in place such mandates, policymakers signal to bond issuers that there is robust demand for their green assets.

²² World Bank (2021). Toolkits for Policymakers to Green the Financial System.

There is currently no issuance of sovereign green bonds by the central government of Morocco. Sovereign green bonds are a type of bond instrument that is issued by a central government, where the proceeds are used to finance or re-finance specific green projects. The issuance process is usually managed by the Ministries of Finance often in coordination with other ministerial departments in charge of the projects that are funded by the green bonds. A key purpose of a sovereign green bond is to raise capital to fund climate or other environmental projects. It is also used to stimulate the development of local green bonds by raising the profile of green bonds. In the case of Morocco, the MEF has no plans to issue green bond in the domestic market but is exploring the opportunity to do so in international capital markets given the growing interest manifested by foreign investors. At this stage, this is more a medium-term reflection than a short-term option.

The green loan market in Morocco is relatively underdeveloped. Green lending market include green mortgages and other types of loans for climate and environmental projects (e.g., renewable energy, sustainable agriculture). In Morocco, authorities have yet to introduce formal labels for green lending products and banks' financing flows to climate and environmental projects are currently not known. At this stage, there are no known guidelines or definitions issued for green loans in Morocco. Based on other countries' experience, the development of green loan guidelines usually falls within the remit of the MEF but could also be developed with financial supervisors.

Authorities such as BAM and MEF are exploring opportunities to implement specific banking regulation or incentive mechanisms for green loans or green finance more broadly. In addition to developing labelling mechanism for green loans, authorities in other countries often introduce incentive schemes to further promote the uptake of green loans, for example through guarantees, subsidies, data provision and aggregation. While these incentive mechanisms have not yet been established in Morocco, BAM, with the support of the Agence Française de Développement (AFD), is conducting a market study to better understand the barriers and opportunities for promoting banks' participation in green loans and other green finance markets. BAM has also evaluated the use of Loan-to-Value (LTV) differentiation to promote green loans in Morocco but concluded that it is too early to use LTV as an incentive mechanism for green loans at this stage. MEF has several incentive mechanisms for loans in general and is exploring whether mechanisms could be developed for green loans specifically as well.

There is limited use of blended finance instruments to raise capital for climate action in Morocco. A growing number of countries have started to use blended instruments in which concessional finance from public and/or development agencies is used to share some of the costs of green investments with private sector investors who are otherwise unwilling or unable to participate. There is a wide range of blended finance tools that are used by countries around the world. Blended finance transactions usually involve the use of financial instruments such as debt or guarantee (both at concessional terms and market rates) to crowd in commercial investments, as well as mechanisms to structure or intermediate the use of these instruments. To explore the use of blended finance for climate action, authorities (BAM and MEF) developed a green guarantee and co-financing program for Micro-, Small and Medium-sized Enterprises (MSMEs) named "Green Invest". The Green Invest program financed priority green projects in key areas such as renewable energy, energy efficiency and pollution control. Building on the lessons from the Green Invest program, the integration of green criteria for other public financial institutions and guarantee funds (e.g., in the Central Guarantee Fund, CCG) could be an important mechanism to reduce risk and mobilize private capital for green investments. However, a green taxonomy may be needed to support the development of such instruments to avoid greenwashing and to provide a common language for investors, issuers, and real economy actors

Toolkit	Examples of good practice	Practice in Morocco
Stimulate corporate green bond	<ul style="list-style-type: none"> Develop standards, definitions and principles, in line with international good practice Consider disclosure guidance and use of taxonomy Consider incentive schemes to reduce transaction costs for small/first-time issuers Stakeholder engagement to build support and build capacity. Consider working with the local stock exchange Develop a verification and certification mechanism Develop an enforcement measure in case of green washing Develop incentive mechanisms to further stimulate the issuance and investment of corporate green bonds 	<ul style="list-style-type: none"> AMMC issued Green Bond Guidelines in 2016 In 2017, AMMC publishes Amended Listing Rules & Green, Social and Sustainability Bonds Guidelines AMMC reduced the approval fee to issue green bonds Casablanca Stock Exchange established the ESG benchmark index to promote sustainable investments
Originate sovereign green bonds	<ul style="list-style-type: none"> Determine the governance framework and objectives of the bond Consultations with investors and other stakeholders Develop the green bond framework in alignment with internationally recognized principles Arrange external review Issue green sovereign bond Coordinate with ministries to select green projects or allocate funds to appropriate government budgets Monitor and report to ensure proceeds are used for appropriate projects Issue an annual allocation and impact report 	<ul style="list-style-type: none"> No known issuance of sovereign green bond by the central government of Morocco
Stimulate the origination of green loans	<ul style="list-style-type: none"> Develop standards, definitions and principles, in line with international good practice and green taxonomy Develop a globally consistent labelling and reporting mechanism. Develop standard loan terms or establish common legal or design standards, as well as provide the needed data, to simplify the underwriting process Create incentive programs for green lending (e.g., provide guarantees, tax breaks) Leverage NDBs Help banks collect green loan repayment Raise awareness and build capacity 	<ul style="list-style-type: none"> Market study is being conducted by BAM to assess green finance opportunities for the banking sector Green loan guidelines, definitions or incentive mechanisms have not yet been developed
Blended finance	<ul style="list-style-type: none"> Conduct analysis and consultation to assess key barriers and risks to commercial finance Decide and design the blended finance tool to address key challenges identified Design a monitoring and evaluation approach and ensure public transparency and accountability Develop a strategy to exit the blended finance arrangement once the market has matured 	<ul style="list-style-type: none"> BAM developed “Green Invest”, which is a green guarantee and co-financing program for MSMEs

3.4 Greening public financial institutions (FIs)

Even if small in size, national development banks (NDBs) and other domestic public FIs can have a major influence on the country's climate and development agenda, given its link between domestic governments, international finance, and local private sector actors. NDBs generally have the institutional support from governments and the understanding of local sectors needed to provide technical support and mobilize private investments. Several governments around the world have repurposed existing NDBs and other public FIs to promote green finance and climate risk management. Based on international good practice, an important starting point is to align current mandates and/or governance and strategic frameworks with key national climate and environmental goals. Beyond developing a governance and strategic framework for climate action, NDBs and other public FIs could take a range of actions to scale up financing to meet climate objectives, assess and manage climate risks and enhance climate disclosure and reporting (see figure 1 for examples).

Figure 1. Toolkits for greening NDBs and other public FIs

Examples of good practice	Practice in Morocco
Developing the governance and strategic framework	<ul style="list-style-type: none"> Develop an internal strategy, including quantitative/qualitative targets, clear milestones, and action plan, for managing key climate risks and opportunities. Develop an internal governance framework to deliver on commitments laid out in the internal strategy. This may include board-level commitment, assignment of individual responsibilities, and integration of climate risks and opportunities into the institution's policies and risk appetite statement.
Scaling up financing to meet climate objectives	<ul style="list-style-type: none"> Support the development of a pipeline of bankable projects, including through technical assistance, awareness raising and standardization of approaches. Develop innovative approaches to address market barriers for private sector climate investments Improve access to concessional funds and grants through international climate funds Deepen green finance markets and carbon markets by actively participating in them or conducting capacity building and piloting.
Assessing and managing climate risks	<ul style="list-style-type: none"> Conduct forward-looking assessments to understand how climate risks translate into financial risks for the NDFI Improve data aggregation capabilities and internal reporting frameworks to harmonize and obtain relevant data for climate risk assessments Build internal capacity to effectively assess and manage climate risks Integrate climate risks into existing risk management frameworks
Enhancing climate-related disclosures and reporting	<ul style="list-style-type: none"> Improve the quality, transparency and consistency of climate finance tracking methodologies, including methodologies to track private finance mobilized through NDFI investments Enhance disclosure and reporting on climate risks.

Public FIs in Morocco have taken important steps to green their practices. Moroccan public banks do not have an explicit green mandate. However, some public banks, given their mandate and the public counterparties they serve, are oriented towards sustainable and green activities. For example, this is the case for Crédit Agricole du Maroc, which actively contributes to Morocco's sustainable development agenda by financing green agriculture projects. The Fonds d'Equipement Communal also places sustainable development as a core priority, and implemented an Environmental and Social Management System in 2021 to facilitate the development of sustainable projects. CDG Capital is taking **action in similar directions, for example by establishing a sustainable development unit and developing a sustainable finance strategy.**^{23, 24} CDG Capital also became an accredited entity of the Green Climate Fund (GCF) in 2017, with the expectation that CDG Capital could support the implementation of GCF projects (e.g., preparing funding proposals, monitoring project implementation etc.).²⁵ However, CDG has not yet translated this accreditation into specific operations.

Morocco established a strategic investment fund (SIFs), The Fonds Mohammed VI pour l'Investissement ('FMVI') in July 2020, to catalyze private investments in Morocco. For the past two decades, the creation of SIFs by governments has accelerated to support countries' economic recovery and development by providing (mostly equity) funding to strategic companies and sectors. In line with this global trend, the FMVI was established to complement the Government of Morocco's covid-19 recovery package by providing equity and quasi equity instruments to strengthen the solvency of companies and contribute to the rebound of investments. Beyond the short-term response to the covid-19 crisis, the FMVI aims to increase the contribution of private capital in priority areas for economic growth (e.g., infrastructure, innovation, enterprises). The target size of FMVI has been set at MAD 45 billion, of which MAD 15 billion is provided by the State and MAD 30 billion is to be raised from domestic and foreign public and private investors.

²³ Lütkehermöller, K; Kachi, A; Pauthier, A; Cochran, I (2021). "Operationalizing Framework on Aligning with the Paris Agreement". New Climate Institute, I4CE.

²⁴ CDG Capital (2016). "For a Sustainable Growth".

²⁵ GCF is a critical element of the Paris Agreement and is the world's largest climate fund, mandated to support developing countries to raise and realize their NDC ambitions

It is currently unclear from the core documents of the fund how the FMVI will contribute to Morocco's climate agenda. Authorities have made significant progress in defining the institutional framework of FMVI, with the adoption of its implementation law and decree. However, the core documents and investment strategy do not reflect how the FMVI will contribute to a green recovery and sustainable development. International experience suggests that there are various ways in which climate and broader ESG considerations could be integrated into SIFs. For example, the investment strategy could (a) set specific resources allocated to green investments; (b) introduce risk-sharing mechanisms (e.g., through guarantees, first loss provisions) to reduce the risk of green investments; or (c) consider blended finance mechanisms, with a higher level of concessional finance, to invest in priority green projects. SIFs could also consider enhancing reporting and disclosure on ESG to outline the fund's ESG policy, implementation strategy and outcomes in order to accommodate international institutional investors, which have increasingly stringent expectations on sustainable investments.

Toolkit	Examples of good practice	Practice in Morocco
Restructure or repurpose NDBs or other public FIs	<ul style="list-style-type: none"> Set a clear mandate in alignment with climate goals Announce quantitative investment objectives in line with climate goals (e.g., NDC) Develop financing mechanisms to unlock private capital for climate investments Develop training and awareness programs to build internal and external awareness of climate risks and green finance Integrate climate risks into the risk management, strategy, and governance framework Develop a monitoring, verification, and impact reporting mechanism. Publicly track progress toward green finance commitments 	Several public FIs such as Crédit Agricole du Maroc, the Fonds d'Équipement Communal and CDG capital have taken steps to green their operations.

3.5 Greening CB operations

BAM is exploring the potential to green central bank's operations including by adopting sustainable investment practices. Internationally, there is growing interest to green central bank's activities and operations (mostly in advanced economies). However, the thinking on these issues is still in the very early stages, and many of the options are still under review by the international central bank community, including NGFS.²⁷ Examples of greening central bank operations include, for example, the adoption of sustainable and responsible investment practices in central banks' portfolio management, central banks' climate-related disclosure²⁸ and greening monetary policies (e.g., through credit operations, collateral policies and asset purchase). BAM has indicated that it may be too early to consider certain options, such as greening monetary policies, at this stage, as the short-term priority of the central bank is to integrate climate risks microprudential supervision for banks. However, BAM has taken steps to integrate sustainability considerations in foreign exchange reserves investment policy since 2020. BAM has also been supporting impact investing by acquiring green, social and sustainable labelled bonds as part of its reserves management portfolio since 2015.

Toolkit	Examples of good practice	Practice in Morocco
Greening central bank operations	<ul style="list-style-type: none"> It is too early to determine good practices. However, examples of greening central bank operations include: Sustainable and responsible investment practices in central bank's portfolio management Greening monetary policy Central banks' climate-related financial disclosure Green credit allocation or targeted regulation for financing green projects 	BAM has adopted several sustainable and responsible investment practices, including by integrating sustainability considerations in its foreign exchange reserves investment policy and reserve management portfolio.

²⁷ NGFS (2021). Adapting central bank operations to a hotter world: reviewing some options.

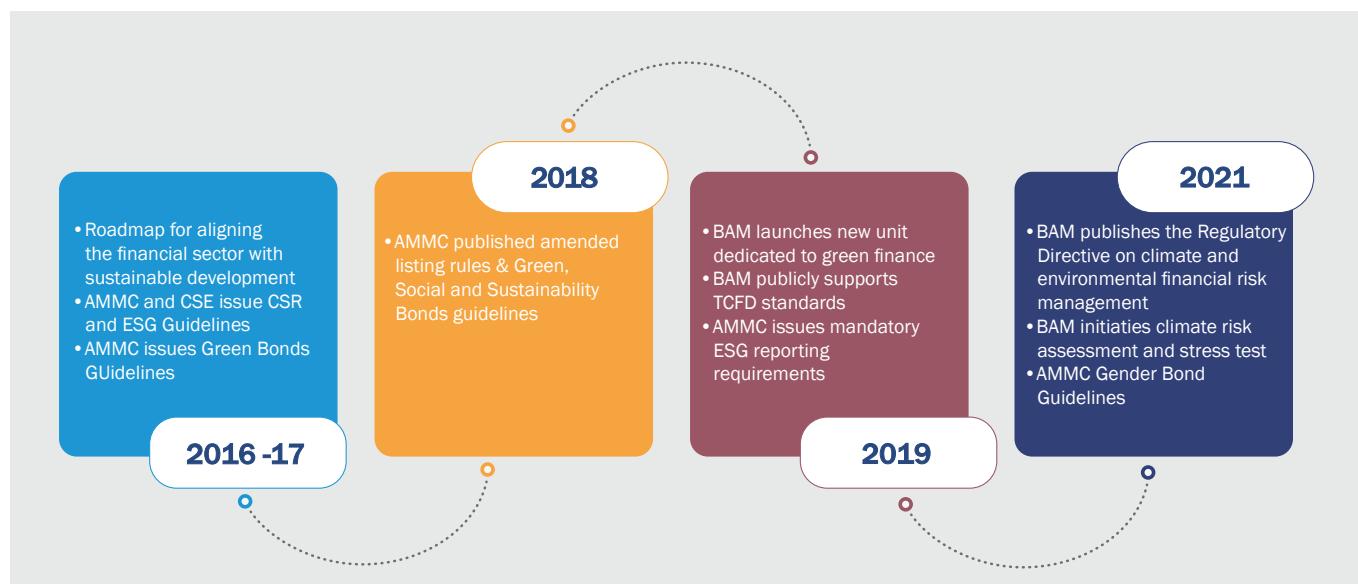
²⁸ NGFS (2021). Guide on climate-related disclosure for central banks.

Concluding remarks

Overall, Moroccan authorities have demonstrated a strong commitment to green the country's financial sector. Figure 2 describes some of the key policy milestones that authorities have introduced to support climate risk management and deepen green finance markets. Authorities have already taken important steps to lay the foundation for greening the financial sector.

However, several policy toolkits that are being utilized in other countries are not yet being implemented in Morocco. While the policy toolkits included in this benchmarking exercise are based on international good practices, careful consideration of Morocco's local circumstances is needed to ensure the effectiveness of these policies. Moving forward, more detailed analytical work and consultations are needed to assess the relevance and feasibility of developing the toolkits included in this benchmark in the Morocco context.

Figure 2. Timeline of key milestones²⁹



²⁹ Adapted from SBFN Country Progress Report

