

ON THE ROAD TO COP29

A Special Interview with Taleh Kazimov, Governor, Central Bank of the Republic of Azerbaijan

Date: November 5, 2024 (Toronto/Baku)

Toronto Centre CEO's Opening Statement:

Babak Abbaszadeh:

On October 23, I had the privilege of meeting with Governor of the Central Bank of the Republic of Azerbaijan, Mr. Taleh Kazimov, in Washington on the margins of the IMF-World Bank Annual Meetings.

He is an impressive leader who is committed to the development of Azerbaijan and to enhancing the capacity of the Central Bank in line with international sound practices. We are pleased to be discussing a partnership with the Central Bank of the Republic of Azerbaijan on a long-term engagement to implement risk-based supervision.

I am also honoured by his invitation to moderate an important panel in Baku as part of COP 29, **CLIMATE FINANCE: TRANSFORMING CLIMATE AMBITION INTO TANGIBLE ACTION**, on November 14.

Why is Azerbaijan's COP29 leadership important and timely?

The answer is that climate and biodiversity loss risks threaten financial stability through physical damage, and through the risks arising from policy measures and shifting market preferences. The risks increase credit, insurance, market, and operational risks for financial institutions, which may in turn pose systemic threats and/or lead to reputational and legal liabilities. Good risk management by financial institutions – including stress testing, scenario analysis, transition planning, and disclosures – are essential to mitigate these risks and to enhance economic resilience and sustainability.

Why is climate action in line with COP 29 and SDG 13 important to Toronto Centre?

Toronto Centre has significant experience in climate and biodiversity loss risks training for financial supervisors. Since 2016, Toronto Centre has been a pioneer in offering capacity-building programming on climate risk supervision of financial institutions, even prior to the involvement of standard setters.

Today, we are an implementation partner of the International Association of Insurance Supervisors International Organization of Securities Commissions and the Central Banks and Supervisors Network for Greening the Financial System in climate risk training. We are also pleased that the Basel Committee on Banking Supervision

recently recognized climate risk in the revisions to its Core Principles for effective banking supervision.

Toronto Centre recently launched a Climate Risk Certification to equip financial supervisors with the essential knowledge and tools to assess, manage, and mitigate climate and biodiversity loss risks to the financial system.

Spotlight on the Central Bank of the Republic of Azerbaijan and COP 29

To gain a better appreciation for the Governor's views and priorities, we conducted the following interview, as our contribution to the "Road to COP29." We are grateful to dear Governor Kazimov for participating in this interview.

Interview:

Babak Abbaszadeh:

Governor Kazimov, this month Azerbaijan is hosting the significant global climate event, COP29. How does the Central Bank plan to showcase Azerbaijan's commitment to climate action and position the country as part of the global solution to climate challenges?

Governor Kazimov:

I would like to extend my heartfelt thanks to dear Mr. Babak Abbaszadeh and Toronto Centre for the opportunity to share perspectives on Azerbaijan's initiatives related to sustainability and particularly to COP29.

COP29 will be a critical enabler of actions against climate change. Azerbaijan's role as COP29 Presidency provides an important opportunity to engage our international partners to advance climate action for the benefit of our planet.

I would like to underline the key factors that define the strategy of Azerbaijan focusing on sustainability issues:

- First, Azerbaijan recognizes the impact of climate change, as global warming is seen as a major problem around the world. Climate change, including rising temperatures and more extreme weather events, along with air pollution, poses sustainability challenges in the country.
- Second, recognizing the urgency of addressing climate change, Azerbaijan has integrated climate change into its socio-economic development strategy. One of the five pillars in the "Azerbaijan 2030: National Priorities for Socio-Economic Development" is to achieve a clean environment and country of "green growth." Furthermore, 2024 has been declared the "Green World Solidarity Year" in Azerbaijan by our President – a decision that emphasizes international solidarity in the fight against climate change.

- Finally, Azerbaijan is committed to international frameworks such as the Paris Agreement. Azerbaijan has set a target to maintain a 35% reduction in greenhouse gas emissions by 2030 compared to 1990 (the base year). In addition, Azerbaijan adopted a new voluntary commitment to reduce emissions by 40% by 2050. To achieve these goals, Azerbaijan has set the main target to increase the share of the installed capacity of renewable energy in the country's overall energy balance to 30%. Currently, Azerbaijan is in the process of updating Nationally Determined Contributions (NDCs), and we expected new targets as a next frontier in the climate change action front.

To support these initiatives and contribute to the realization of these goals, the Central Bank of the Republic of Azerbaijan (CBAR) has defined its strategic framework for greening the financial system of Azerbaijan. I would like to emphasize the following key initiatives in this regard:

- The Sustainable Finance Roadmap for 2023-2026 has been developed on the four key pillars, and acts as the foundation to navigate the development of greening financial system in Azerbaijan.
- The Financial Sector Development Strategy for 2024-2026 outlines a detailed action plan aimed at effectively identifying, monitoring, and managing climate-related risks, ensuring the stability of our financial system.

Climate finance, the strategic framework, and action plans will yield several outcomes:

- A functional ecosystem for green finance, including data, definitions, and regulations
- Transformation of business models and strategies of the financial institutions towards sustainable and green finance
- Financial institutions that are starting to implement transition plans in line with the NDCs

CBAR's strategy for COP29 preparations:

CBAR has accelerated the implementation of the Sustainable Finance Roadmap in several ways. One of those initiatives is to adopt the Azerbaijan National Green Taxonomy.

I would like to emphasize the importance of the Taxonomy for a green transition:

- The Azerbaijan National Green Taxonomy is designed to serve as a national framework that supports Azerbaijan's green transition. Its objectives are aligned with environmental sustainability goals, addressing critical areas such as climate change mitigation, adaptation, and ecosystem restoration and conservation.

- The Taxonomy's structure and design have been benchmarked against international practices to facilitate interoperability while considering local economic, environmental, and social contexts.
- By clearly defining green and sustainable investments, the participants of financial markets can better align their strategies and incentives to ensure capital flows to sustainable projects. This also gives investors greater confidence in green and sustainable investments, reducing the risk of misleading environmental claims.

Adoption of the Taxonomy will lay a strong foundation for the country's green transition and decarbonization efforts. It will raise awareness of both financial and non-financial sector participants and guide them in categorizing economic activities as green. This, in turn, can enhance Azerbaijan's competitiveness, contributing to global climate and sustainability goals.

Babak Abbaszadeh:

Governor Kazimov, what role do you see the financial sector playing in achieving Azerbaijan's sustainability and climate goals?

Governor Kazimov:

Achieving Azerbaijan's updated NDCs will necessitate substantial new investments. According to the World Bank Group's Country Climate and Development Report for Azerbaijan, the total estimated incremental discounted costs of decarbonization and resilience until 2060 amount to roughly to US\$44.1 billion. This allocation includes US\$24.7 billion designated for decarbonization and US\$19.4 billion for resilience.

While some of this investment will come from public fiscal sources, a significant part should come from the private sector. Financial institutions, particularly banks, can play a key role in mobilizing and directing resources to green and sustainable projects.

Banks, being key drivers of economic growth, have a significant role to play in advancing climate finance. Our financial institutions are gradually transforming their business models to support the transition process to a low-carbon economy.

CBAR's key policy objective is unlocking the financial sector's potential to direct investments towards the green transition.

Babak Abbaszadeh:

Governor Kazimov, could you please elaborate on any collaborations or partnerships with international financial institutions that may be highlighted during COP29?

Governor Kazimov:

As the Central Bank of the COP29 host country, we have initiated the "Roadmap for Advancing Interoperability and Comparability of Sustainable Finance Taxonomies." This

is in collaboration with the IFC-supported Sustainable Banking and Finance Network (SBFN), the International Platform on Sustainable Finance, and the United Nations Development Programme (UNDP)

The rationale for this global initiative is that taxonomies are important to reach climate goals. We clearly understand that the alignment between these taxonomies will raise their efficiency. Many countries are adopting taxonomies, but they are too varied to work together, creating inconsistent standards.

At COP29, we aim to propose a way forward to create more alignment between taxonomies. The objective is to connect and coordinate various ongoing efforts related to sustainable finance frameworks and operationalize them through clear, practical, and coordinated actions.

This Roadmap defines new frontiers in enhancing the interoperability and comparability of sustainable finance taxonomies. It is expected to be officially launched during COP29 in Baku, together with key partners.

The Roadmap highlights the leadership of Azerbaijan in advancing sustainable finance. It builds on discussions and feedback gathered during intensive work with key partners. For example, our delegation participated in the SBFN's 8th Global Meeting, held in Rio de Janeiro, and discussed the initiative with SBFN members from 60 countries. The meeting participants emphasized the importance of interoperability of taxonomies and supported CBAR's initiative.

Babak Abbaszadeh:

Governor Kazimov, are there any specific initiatives or programs the Central Bank is planning to announce at COP29 to promote climate finance in Azerbaijan?

Governor Kazimov:

Thank you for this opportunity to emphasize the CBAR's role and initiatives related to such an important matter. Responding to your question, I would like to proudly emphasize that the CBAR is planning to organize two thematic events at COP29 Finance Day.

The first event will be about scaling up financing for climate action. This event will convene public and private sector leaders to discuss progress towards scaled-up climate investments, and additional efforts by International Financial Institutions (IFIs), Multilateral Development Banks. It will further mobilize finance to support the green transition on a scale required to meet the objectives of the Paris Agreement.

One of the key announcements will come from the Azerbaijan banking community, which is prepared to pledge significant financial resources by 2030 to support green transition projects in Azerbaijan. This pledge will demonstrate the sector's readiness to deploy resources to climate action and showcase its commitment to finance renewable energy, sustainable infrastructure, and other green initiatives.

Another important milestone is finalizing Azerbaijan's National Green Taxonomy. The Central Bank has engaged proactively with public and private institutions and established an expert group to develop the Azerbaijan Green Taxonomy. With technical support from World Bank experts, this expert group has already drafted the Green Taxonomy. We have recently finalized the public consultation of the taxonomy with public institutions, industry associations, financial institutions, investors, international development partners, Micro Small and Medium Enterprises (MSME) representatives, potential bond issuers, and other key stakeholders. The next step is to submit the taxonomy to the government for approval. We expect the approval procedures to be finalized soon.

Finally, we plan to announce the global Taxonomy Alignment Initiative together with our global partners, marking the first time this topic will be discussed at the COP.

I seize the opportunity to thank you for accepting our invitation to be a moderator at one of the panels of CBAR's event.

Babak Abbaszadeh:

Governor Kazimov, thank you for your kind invitation, I'm honoured to moderate. What efforts are being made to build capacity within the financial sector to better address climate-related risks and opportunities?

Governor Kazimov:

This question addresses a crucial issue. Since the adoption of the Sustainable Finance Roadmap, we gave high priority to the first pillar: capacity-building within the financial sector. Under this pillar, our activities are directed at the promotion of green finance. It involves raising awareness among financial institutions about the necessity of identifying, measuring, and monitoring climate risks. This includes developing soft guidelines to encourage banks to incorporate these risks into their risk management frameworks, aligning with global standards and best practices from other countries. Additionally, our strategy emphasizes strengthening cooperation with local and international partners, which is crucial for exchanging information, expertise, and best practices.

We have actively supported capacity-building initiatives of financial institutions by organizing a series of seminars, workshops, and training sessions in partnership with IFIs like the World Bank, IFC, European Bank for Reconstruction and Development, and other development partners. These events are designed to equip financial institutions with the necessary knowledge and tools to develop and implement green and sustainable finance products. By fostering a deeper understanding of sustainable finance principles and best practices, we aim to create a firm foundation for Azerbaijani banks to integrate sustainability into their operations and offer innovative green financial solutions.

In addition, we have begun to integrate the principles of sustainable development into regulatory requirements. Thus, according to recently updated corporate governance standards, strategic planning process and risk management policies in banks and insurance and investment companies should cover climate change factors (such as environmental degradation and disturbances in the ecosystem). It will have a significant impact on the institutions' operations. Today, we see a number of local banks renewing their strategic plans accordingly and publicly disclosing their sustainability development financing goals. We also see insurance companies updating their risk assessment approaches, and investment companies exploring best practices in investing in green investment products.

In conclusion, I would like to express my sincere gratitude to you and Toronto Centre for organizing this interview and providing the opportunity to share Azerbaijan's aspirations and initiatives in advancing the shift towards sustainability.

Babak Abbaszadeh:

Governor Kazimov, thank you very much for sharing your views with us. I enjoyed this conversation with you and learned a lot about your important initiatives.

We wish you a successful COP29, and I look forward to seeing you again in the dynamic city of Baku.