

Financial Sector Roadmap Towards Sustainable Finance



2025-2028

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Abbreviations

CBCG	Central Bank of Montenegro
CMA	Capital Market Authority
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ESG	Environmental, Social, and Governance
ESRB	European Systemic Risk Board
ESRS	European Sustainability Reporting Standards
EU	European Union
GHG	Greenhouse Gases
IFC	International Finance Corporation
ISA	Insurance Supervision Agency
ISSB	International Sustainability Standards Board
NAP	National Adaptation Plan
NDC	National Determined Contribution
NGFS	Network for Greening the Financial System
RCC	Regional Cooperation Council
SBFN	Sustainable Banking and Finance Network
SDG	Sustainable Development Goals
SREP	Supervisory Review and Evaluation Process
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Taskforce on Nature-related Financial Disclosures
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change

Introduction

Climate change poses a risk to economic growth and financial stability, which can further increase inequality and poverty in the society.

The creation of the Financial Sector Roadmap Towards Sustainable Finance (the Roadmap) provides for the establishment of a single strategy that envisages the achievement of several interrelated goals aimed at a more accelerated transition of Montenegro's financial sector to green and sustainable business practices and contribute to advancing society's transition towards sustainable development.

In order for the financial sector's transition to be successful, it is necessary to secure and enhance the availability of financial resources from public and private sources that are to be channelled into projects that incorporate some of the components of the environmental, social and governance (ESG) principles. This will encourage the development and adoption of policies aimed at managing climate and nature-related risks, as well as the transformation of financial sector institutions through the incorporation of the ESG standards in their business practices.

To achieve the aforesaid, special emphasis is placed on improving the institutional coordination framework and strengthening institutional capacities, increasing the availability and quality of climate and environmental information, and identifying potential responses and adaptation measures. It is crucial to identify financial requirements and secure the required resources to provide financing for adaptations necessitated by climate and nature-related changes.

In the long term, with the establishment of an encouraging institutional, planning, and program-oriented environment for adaptation at the national and sectoral levels, Montenegro will be able to identify risks and vulnerabilities caused by climate and nature-related changes.

The Roadmap is the result of efforts of the inter-institutional working group set up by the Financial Stability Council of Montenegro in July 2024. The group consists of representatives from the Central Bank of Montenegro, the Ministry of Finance, the Capital Market Authority, the Insurance Supervision Agency, the Ministry of Economic Development, the Development Bank of Montenegro, the Association of Montenegrin Banks, the Investment Agency of Montenegro, the Recue and Protection Directorate of the Ministry of Internal Affairs, the University of Montenegro, the Chamber of Economy of Montenegro, business representatives, independent experts, and non-governmental organizations.

The Roadmap has been prepared using the methodology presented in the guide of the Sustainable Banking and Finance Network (SBFN, 2023) facilitated by the International Finance Corporation (IFC).

Global context

Transition towards a sustainable, climate-neutral, and circular economy will have a significant impact on the financial system. In 2015, all United Nations (UN) member states adopted the 2030 Agenda for Sustainable Development, which globally defines 17 Sustainable Development Goals (SDGs) as the foundation for building a future that ensures stability, eradicates poverty, preserves the planet, promotes inclusive and resilient societies and fosters economic growth.

With the aim of halting further negative effects, the Paris Agreement was signed in December 2015. The signatories committed to reducing greenhouse gas (GHG) emissions, accelerating the transition to energy-efficient technologies, as well as making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. The long-term objective set in the Paris Agreement is the holding of the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels (UN, 2015).

In 2019, the European Commission (EC) adopted the European Green Deal as an integral part of its strategy to implement the UN's 2030 Agenda and reach the SDG (EC, 2019). In this strategy, the EC sets out a clear vision for Europe to achieve climate neutrality by 2050, with zero net GHG emissions. Therefore, the European Green Deal represents a new growth strategy that aims to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth does not depend on the use of resources (EC, 2019). With a view to reaching climate neutrality, in 2021, the EC adopted the so-called *European Climate Law*¹ that sets the binding Union 2030 climate target of a domestic reduction of net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels (EC, 2021a). Following the adoption of the *European Climate Law*, the EC introduced the ambitious "Fit for 55" package, which is a set of proposals aimed at revising and updating EU legislation to ensure that all sectors of the European economy align with the established climate goals. The European Commission adopted the EU Biodiversity Strategy for 2030 that sets out a truly ambitious and far-reaching programme of measures to halt and reverse biodiversity loss in the EU and across the globe, which is necessary for a stable future on this planet and represents a socioeconomic imperative to achieve the European Green Deal objectives (EC, 2021b). Sustainable finance plays a key role in achieving policy objectives within the European Green Deal, as well as in meeting the EU's international commitments related to climate and sustainability goals. In 2020, the European Commission adopted the so-called Taxonomy Regulation, which establishes a general framework for determining whether an economic activity can be considered environmentally sustainable. This

¹ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 („European Climate Law“)

framework helps assess whether and to what extent investments in such activities qualify as sustainable (EC, 2020).

According to the latest *Progress Towards the Sustainable Development Goals Report* of the Secretary-General, despite some reductions in greenhouse gas emissions in developed countries, greenhouse concentrations hit record highs in 2022, with real-time data in 2023 indicating a continued rise (UN, 2024). Carbon dioxide levels have surged to 150% above pre-industrial levels. Public funding of oil, coal and gas production and their consumption more than doubled from 2021 to 2022 and even tripled since 2015, thus hindering progress on the transition to net zero greenhouse gas emissions by 2050.

National context

Montenegro had signed the Paris Agreement in April 2016 and the Parliament of Montenegro ratified it in October 2017. Prior to the signing of the Paris Agreement, Montenegro adopted the Parliamentary Declaration on Ecological State and Sustainable Development in 1991; in 2005, it adopted the Law on Strategic Environmental Assessment; in 2006, it became a member of the United Nations Framework Convention on Climate Change; in 2007, it confirmed the Kyoto Protocol; and in 2010, it adopted the first National Strategy for Sustainable Development, and in 2016 it passed the National Strategy for Sustainable Development until 2030 that was subject to revision and a new Strategy was adopted in 2016 (Kilibarda, 2021). In 2015, Montenegro adopted the National Strategy in the field of climate change by 2030 wherein it set the Nationally Determined Contribution to reduce greenhouse gas emissions. In 2015, Montenegro adopted the National Strategy for Climate Change until 2030. The Nationally Determined Contribution (NDC) for GHG emission reduction was updated in February 2025 and thus Montenegro committed to a multi-year target of a domestic economic-wide reduction of net greenhouse gas (GHG) emissions by at least 55% and 60% compared to 1990 by 2030 and 2035, respectively (UN, 2025). Montenegro is currently in the process of adopting the National Adaptation Plan (NAP), with the support from the UNDP and funds provided from the Green Climate Fund.

The **Central Bank of Montenegro** (CBCG) has recognized the numerous challenges the world faces in mitigating the impact of climate change, as well as the importance of transitioning to a green economy and greening the financial system. In line with this, the CBCG adopted the *Central Bank of Montenegro Policy Related to Climate Change Challenges* in 2022 (CBCG, 2022). Since 2021, the CBCG has conducted three studies on the impact of climate and environmental risks, i.e. the ESG factors on credit institutions. The findings indicate progress and a strengthened commitment by these institutions to integrating climate and environmental considerations as well as the ESG factors into their business strategies. In 2022, the CBCG became a member of the Network for Greening the Financial System (NGFS). Subsequently, in 2024, it joined the Sustainable Banking and Finance Network (SBFN) that serves as a global platform for knowledge sharing and capacity building on sustainable finance for financial sector regulators and industry associations in emerging markets and developing economies. That same year, the Association of

Montenegrin Banks also joined the SBFN (SBFN, 2024). At the end of 2024, the CBCG adopted its *Strategic Plan 2025–2028* wherein it identifies the promotion of sustainability through initiatives related to green finance as one of its five strategic objectives aimed at positioning the CBCG as one of the key players in Montenegro's sustainable financial transition (CBCG, 2024). The CBCG's Investment Strategy outlines investments in securities funding green, socially responsible, and sustainable projects.

The **Capital Market Authority** (CMA) has recognized the critical role of sustainable finance in the transition to a green economy and a long-term development of the capital market. As the capital market regulator, the CMA has been actively working on aligning the national legislation with international standards, including the integration of ESG principles into corporate reporting and investment strategies. To this end, the CMA will play a key role in shaping the regulatory framework that ensures transparency in sustainability disclosures, enhancing the reporting standards, and establishing the supervisory mechanisms aligned with European practices related to the capital market. Additionally, the CMA plans to implement initiatives aimed at raising awareness and building the capacity of capital market participants, with a particular focus on assisting companies in adapting to the requirements of the EU Taxonomy, the ISSB, and the ESRS standards.

In order to support a sustainable transition, the CMA has initiated the development of a Corporate Governance Code through the EU *Twinning Light* project that will further strengthen the principles of responsible business conduct, ESG risk management, and transparent reporting in the capital market. This step reaffirms the CMA's commitment to making the capital market more resilient, competitive, and aligned with global trends in sustainable finance.

The **Insurance Supervision Agency** (ISA) has recognized its unique systemic position and responsibility in finding solutions to mitigate the financial consequences of natural disasters given Montenegro's geographical position, which makes it particularly vulnerable to seismic risks and the growing risks of climate change. The agency is a member of the International Association of Insurance Supervisors. In December 2024, the ISA participated in the meeting of insurance market regulators and private sector representatives from Southeast European countries organized by the Regional Cooperation Council (RCC), which marked the beginning of regional initiatives on this topic.

In early 2024, the ISA conducted a study on the level of (re)insurance coverage against natural disaster risks for key national assets, including buildings, motor vehicles, and agricultural holdings in Montenegro. The findings revealed insufficient and/or extremely low penetration of natural disaster insurance across the country.

In collaboration with the UNDP Office in Montenegro and as part of the NAP project "Enhancing Montenegro's Capacity to Integrate Climate Change Risks into Planning", the ISA developed a *Roadmap for Integrating Climate Change Actions into Montenegro's Insurance Sector* wherein it communicates concrete recommendations based on public-private partnerships and inter-institutional cooperation. Going forward, the ISA will undertake necessary steps to formulate a sustainable systemic solution for the insurance sector.

Sustainable finance and climate change and nature-related financial risks

Climate change, environmental degradation, social issues, and the ESG factors in general pose significant challenges to the global economy.

The impact of risks induced by climate change, the necessary transition to a low-carbon, more efficient, and sustainable economy, the development of a more inclusive society, and other ESG challenges have been driving profound economic changes, affecting the financial sector as well. Failure to mitigate the impact of climate change, unsuccessful decarbonisation of the economy, and poor adaptation to climate change will create new risks for both the economy and finance. Ensuring a stable future requires a paradigm shift and a transition to sustainability-oriented business practices. The growing prevalence and complexity of environmental, social, and governance (ESG) risks present a challenge for the financial industry in developing innovative business models and instruments that effectively support the transition to a sustainable economy.

Reducing climate and nature-related risks requires urgent action to drastically cut GHG emissions (mitigation), coupled with strategies to enhance resilience to current and future climate and nature change impact (adaptation). **Sustainable finance** covers policies, regulations, and practices by regulators, supervisors, industry associations, and financial institutions aimed at: (1) reducing and managing environmental, social, and governance risks from financial sector activities, including climate change and nature-related risks; and (2) encouraging the flow of capital to assets, projects, sectors and businesses dedicated to environmental protection and/or climate change mitigation and adaptation, as well as providing social benefits (SBFN, 2023).

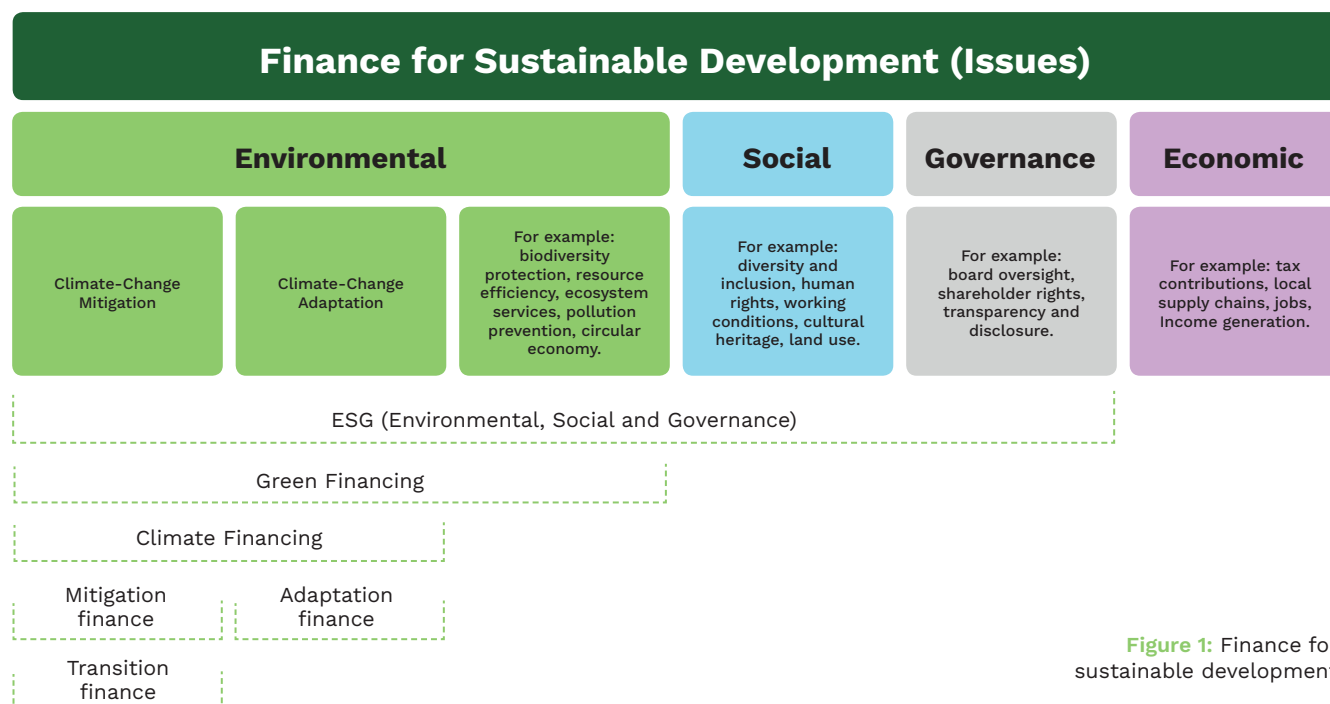


Figure 1: Finance for sustainable development

Sustainable funding represents “the process of taking due account of ESG considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects (EC, 2025).

Climate change and nature-related risks can negatively impact overall financial stability. To prevent this, regulators and supervisors of the financial system institutions are increasingly analysing climate and nature-related risks to assess the exposure and vulnerability of financial institutions and the financial system as a whole. Climate change and environmental degradation impact financial risks which, in turn, affect the stability and security of financial institutions.

Climate and nature-related risks are generally categorized as **physical and transition risks; however, systemic nature-related risks have also been recognized.**

Physical risks of climate change refer to the financial impact of climate change that may arise from increasingly frequent extreme weather events, leading to direct financial consequences (e.g. property damage) and indirect effects (e.g. disruptions in supply chains). These risks can also result from gradual climate changes, such as environmental degradation, including water and land pollution, biodiversity loss, and deforestation.

Physical risks can be classified as:

- a) acute risks, triggered by extreme events such as droughts, floods, storms, hurricanes, cyclones, and typhoons, and
- b) chronic risks, which stem from progressive negative changes such as rising temperatures, sea level rise, biodiversity loss, and the depletion of natural resources.

Transition risks of climate change refer to financial consequences resulting from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered by a relatively **abrupt adoption of climate and environmental policies, technological changes in market sentiment and preferences** (ECB, 2020). New climate and environmental policies aim to restrict activities that contribute to the harmful effects of climate change or promote adaptation to climate change. A key uncertainty in assessing the **technology risk** lies in the timing of technology development and deployment. Climate change influences shifts in supply and demand for certain goods, products, and services, leading to **risks associated with changes in market preferences**. Shifts in consumer preferences and a greater awareness of climate change effects impact customer and community perceptions regarding an organization’s contribution to or detracting from the transition toward lower-carbon emissions, which can, in turn, affect **reputational risk** (TCFD, 2017).

As climate-related and **nature-related risks** encompass potential threats to organisations arising from their dependencies on and impacts on nature and broader societal systems.

These risks can be:

- **physical**, i.e. stemming from environmental degradation and the consequent loss of ecosystem functions (e.g. acute risks such as oil spills and wildfires, and chronic risks such as pesticide pollution),
- **transition**, which emerge when business activities are misaligned with efforts aimed at protecting, restoring, and/or reducing negative impacts on nature (regulatory and policy changes, technological advancements or shifts in consumer preferences), and
- **nature-related systemic risks** arise from the breakdown of the entire system and not just parts thereof (TNFD, 2023).

Another transition risks in moving toward a low-carbon economy is **stranded assets risk**, particularly in sectors susceptible to major transformations. High-carbon industries, such as energy and transportation, may experience significant asset devaluation due to regulatory changes, technological shifts, and evolving investor preferences. This risk can affect investment portfolios and the overall stability of the financial sector.

One of the key challenges in the transition to a low-carbon economy and the development of sustainable finance is minimizing the potential for *greenwashing*, i.e. the misrepresentation of investments and business activities to create a false impression of environmental and social responsibility. Investors and regulators are increasingly demanding transparency and accuracy in ESG disclosures, and companies failing to meet these standards risk losing market trust and facing regulatory penalties, further increasing reputational risk.

These risks present new challenges for financial institutions, highlighting the growing need for assessing each organization's exposure to climate and nature-related risks. Given their significance, transparent reporting and the implementation of the ISSB standards, the EU taxonomy, and the ESRB recommendations are now becoming critical factors in mitigating potential financial market disruptions.

Montenegro's Financial Sector on the Path Towards Sustainable Finance

Financial market structure

The financial system of Montenegro comprises of financial institutions, the financial market, and the financial infrastructure. The structure of Montenegro's financial market consists of several key institutions and sectors that collectively contribute to economic stability and development. The Central Bank of Montenegro (CBCG) has the central role in maintaining financial stability, with its mandate defined by the Constitution of Montenegro and the Central Bank of Montenegro Law. According to the CBCG law², until Montenegro becomes a member of the EU, the CBCG objectives include fostering and maintaining the financial system stability, including fostering and maintaining a sound banking system and a safe and efficient payment system, and contributing to achieving and maintaining price stability. The Financial Stability Council (FSC), chaired by the Governor of the CBCG and comprising of the Minister of Finance, the President of the Insurance Supervision Agency Council, and the President of the Capital Market Authority, brings together regulators and supervisors of the financial system. The FSC's primary role is to coordinate efforts in monitoring, identifying, preventing, and mitigating potential systemic risks in Montenegro's financial system as a whole with a view to safeguarding financial stability and preventing factors that could trigger a widespread financial crisis.

Montenegro's financial system is bank-centric, with the banking sector dominating the financial market with some 90% share in total financial assets. After banks, the second-largest market participants are insurance companies, primarily those engaged in non-life insurance. Albeit significantly smaller than the banking sector, the insurance sector plays a crucial role in risk management and financial stability, including financial security at the micro level (for individuals and businesses). The remainder of the financial sector consists of microcredit financial institutions, leasing companies, (open-end and closed-end) investment funds, factoring companies, and companies for the purchase of receivables.

Therefore, the Roadmap development stakeholders are the regulators, supervisors, and the financial system institutions.

² Central Bank of Montenegro Law (Official Gazette of Montenegro no. 040/10 of 22.07.2010, 046/10 of 06.08.2010, 006/13 of 31.01.2013, 070/17 of 27.10.2017, 125/23 of 31.12.2023)

Current situation and sustainable finance flows in Montenegro

Sustainable finance represents a key driver of Montenegro's transition towards a sustainable economy. This is achieved through:

- **Alignment with global commitments:** supporting international agreements such as the Paris Agreement and the Sustainable Development Goals;
- **Encouraging innovation:** promoting the development of new technologies and industries that prioritize sustainability;
- **Enhancing market transparency:** promoting clear ESG reporting and accountability, thereby strengthening investor confidence.

Through these activities, sustainable finance not only mitigates the negative effects of climate change and social inequalities but also contributes to building a more resilient economy that supports Montenegro's long-term prosperity.

An analysis of available sources of sustainable finance indicates that Montenegro has a **growing ecosystem of sustainable finance flows** supported by:

- **International financial institutions** (e.g. EBRD, EU funds, World Bank, UNDP), which play a crucial role in providing financial and technical support for sustainable development projects;
- **Government initiatives** (green budgeting, tax incentives for sustainable projects), such as public-private partnerships, which serve as an effective mechanism for financing infrastructure projects with sustainable components, allowing for a combination of public and private capital sources;
- **Local businesses**, through capacity building in education and training, which can enhance their ability to adopt sustainable business models and attract investments.

These factors form the foundation for a further development of the sustainable finance strategy and its alignment with global and national priorities.

Available analyses from the European Environment Agency³ indicate that the SEE region, including Montenegro, is particularly vulnerable to climate change risks, and the branches that are under a particular threat are energy, agricultural production, forest ecosystems, summer tourism, and small local businesses in rural areas that depend on environmental quality.

Montenegro has a notable potential for sustainable investments in key sectors such as renewable energy sources, energy efficiency, sustainable tourism, waste management, and agriculture, but it still faces a significant investment gap in the priority sectors. As noted, there are numerous opportunities to redirect the existing credit institutions' lending activity to the priority sectors and attract capital through innovative financial products, international support and public-private sector synergy. Addressing these challenges will be

³ <https://www.eea.europa.eu/en>

crucial for achieving sustainable development goals and strengthening the resilience of the economy in the process of integration into the European Union.

Renewable energy sources – Montenegro has a significant potential for renewable energy sources, but investments remain insufficient. Large-scale investments in solar, wind, and hydropower are needed to reduce dependence on fossil fuels and enhance energy security. The World Bank, through its *Country Partnership Framework*⁴, has recognized the importance of financing renewable energy projects, while the introduction of green bonds and increased private sector investments could help bridge this financial gap.

Energy efficiency – An increasing number of property and businesses owners have been expressing interest in energy-efficient technologies that reduce costs and CO₂ emissions, which creates opportunities for the development of new credit products aimed at funding energy efficient projects. Additional funding is required, particularly for the modernisation of residential and commercial buildings through improvements in insulation, window replacement, and heating system optimisation. Although there have been a few credit lines disbursed to support energy efficiency in residential buildings, additional funds are necessary to expand the reach of these initiatives.

Sustainable tourism – Montenegro has great economic potential for sustainable tourism, given its natural beauty and the growing global trend towards eco-friendly tourism. Although tourism and related industries account for over 25% of Montenegro's GDP, tourism industry faces challenges related to climate change and environmental degradation. Currently, there is a lack of investment in environmentally sustainable tourism facilities and infrastructure, representing a missed opportunity to enhance competitiveness in the international market. Developing eco-friendly accommodation and sustainable transport solutions can improve the industry's resilience and attract a larger number of environmentally conscious tourists.

Agriculture – Significant financial support is needed to transition agriculture towards sustainable practices, including organic production and the adoption of eco-friendly technologies. Consumers are increasingly favouring organically grown food, which represents an opportunity for investments in sustainable agriculture. However, the sector faces limited access to credit and investment funds, which hinders the widespread adoption of these practices. The development of specialised green loans and incentives can facilitate the shift to eco-friendly manufacturing practices.

Sustainable forestry – Forestry is a sector with substantial financial needs. Capital must be directed towards funding projects that involve sustainable forest management and renewable energy sources. Investing in sustainable forestry projects not only protects Montenegro's forest resources (covering around 60% of the country's territory) but also supports global climate change mitigation and biodiversity conservation goals. The World Bank, through its *Forest Carbon Partnership Facility*⁵, supports projects that

⁴ <https://www.worldbank.org/en/projects-operations/country-strategies>

⁵ <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/261631468153851493/the-forest-carbon-partnership-facility>

incorporate sustainable forestry whilst taking into account both social and environmental factors.

Waste management is another sector requiring significant finances. Currently, the waste management system needs modernisation through investments in recycling centres and waste-to-energy facilities. Improving recycling and waste processing infrastructure would not only reduce environmental problems but also create new jobs and economic opportunities.

Green financial initiatives play a crucial role in mobilizing capital for sustainable projects. The banking sector has been increasingly recognizing the need for specialized financial products such as green bonds and green loans aligned with the ESG standards. With the growing investor and consumer interest in sustainable financial products, there is an opportunity for banking sector innovation in order to attract additional investments in sustainable development. Strengthening the **regulatory framework** to encourage sustainable investments can create more favourable conditions for investments in green technologies and eco-friendly practices. The development of **green financial products**, including green bonds, green credit lines, and green insurance products can channel capital into priority areas that contribute to emission reductions and increasing energy efficiency. Growth of green investment funds represents a significant segment within sustainable finance. These funds provide investors with access to diversified portfolios aligned with the ESG principles, reducing climate-related risks and promoting long-term sustainable investments.

The transition of Montenegro to a sustainable economy requires targeted investments in these key sectors.

Financial Sector Roadmap Towards Sustainable Finance

Roadmap objectives

Financial institutions play a key role in mobilizing capital through tailored financial instruments that meet the specific needs of various sectors whilst aligning with national sustainability strategies and the ecological transition.

Although there is a growing demand for sustainable solutions in these areas, current funding levels are still insufficient for the full realization of their potential.

The Roadmap establishes a comprehensive and practical framework for aligning the national financial system with the sustainable development goals. This initiative provides a structured approach to integrating the ESG criteria into financial decision-making, strengthening economic resilience, and promoting social equity. By clearly defining its vision and objectives, the Roadmap aims to build consensus and mobilize resources among all relevant stakeholders for Montenegro's sustainable financial future. The Roadmap outlines the objectives and a list of activities needed to encourage financing sustainable development.

Strategic Roadmap objectives are:

1. Integration of environmental (E), social (S), and governance (G) factors into the financial decision-making process,
2. Incorporation of risks related to climate change and environmental challenges into supervisory activities and risk management,
3. Increasing the availability of funds for financing green investments, thereby encouraging the implementation of priority sustainable development activities.

Other Roadmap objectives pursued are:

- **Development of a coordinated sustainable finance ecosystem:**
 - the Roadmap aims to foster collaboration among government institutions, financial entities, the business community, and civil society to advance sustainable finance;
 - strengthening partnerships will create an ecosystem that supports green investments and enhances the resilience of Montenegro's financial sector;
- **Alignment of the financial sector with the sustainable development goals:**
 - the Roadmap ensures that the financial sector's activities contribute to Montenegro's objectives in the areas of climate action, social equity, and economic growth;

- Financial markets, the banking system, and capital investments will be aligned with global and national sustainability priorities to maximize their impact;
- **Support for regulatory frameworks that promote sustainable finance:**
 - the Roadmap advocates for regulatory reforms aimed at encouraging green investments, fostering the development of green financial products, enhancing ESG transparency and reporting, and attracting both international and domestic investments aligned with sustainability objectives;
 - establishing an enabling regulatory environment is deemed essential for the advancement of sustainable finance;
- **Capacity building and stakeholder engagement:**
 - the Roadmap prioritizes the development of skills and raising awareness within the financial sector;
 - training and educational initiatives will empower institutions and stakeholders to adopt sustainable financial practices;
 - workshops, consultations, and forums will encourage widespread implementation and foster collaboration;
- **Support for the transition to a green economy:**
 - the Roadmap provides strategic guidance to expedite Montenegro's transition towards a green economy;
 - the Roadmap supports enterprises that prioritize sustainability and inclusiveness, promotes the use of renewable energy sources and low-carbon projects, and encourages financial institutions to offer green financial products and services.

Over the long term, the Roadmap implementation is expected to enhance the financial sector's resilience to climate and nature-related risks, reduce market uncertainties, and create a stable investment environment that supports growth of a green economy and development of innovative financial products.

Roadmap pillars

The Roadmap identifies three pillars:

- **Pillar 1: Integration of ESG principles,**
- **Pillar 2: Climate and nature-related risk management and supervision,**
- **Pillar 3: Financial sustainability flows.**

Common characteristics have been identified across all three pillars, including:

- **Good governance** that entails establishing or expanding governance and coordination mechanisms with relevant stakeholders to ensure successful coordination and implementation of the Roadmap and planned activities;
- **Capacity building and raising awareness of the importance of sustainable finance**, which represents the implementation of a systemic approach to building knowledge on sustainable finance and strengthening institutional

capacities for the effective implementation of the Roadmap and proposed activities. Activities may include: specialized training and certification programs on various sustainable finance topics, learning platforms, integration of sustainable finance modules into formal education, awareness-raising campaigns on sustainability issues, the establishment of research centres and initiatives on sustainable finance, and the creation of targeted websites and platforms;

- **Regular monitoring, evaluation and reporting** that involve establishing the monitoring measures, accountability mechanisms, and reporting procedures to ensure the effective implementation of the Roadmap. Activities may include the development of key performance indicators and targets to measure the Roadmap implementation, monitoring and reporting by key institutions responsible for carrying out activities, financial institutions' monitoring and reporting, participation in international assessments of progress in sustainable finance (for example, SBFN annual assessment), periodic reporting on events and meetings of key stakeholders, and regular public engagement to inform stakeholders of the achieved progress;
- **International cooperation** that includes identifying relevant initiatives and participating in various international networks, platforms and coalitions, promoting cross-border knowledge exchange and cooperation, and ensuring alignment with international standards and best practices.

PILLAR 1 – Integration of ESG principles

ESG integration refers to the management of environmental, social, and governance risks in business, lending and investment activities of financial institutions.

Defining the ESG framework involves research, analysis, and assessment of the existing ESG framework for the financial sector, market research, and the identification of existing initiatives, needs, challenges, expectations or key ESG risks and impacts on critical sectors.

The most significant expectations/requirements for financial institutions defined within the framework and principles of ESG integration are:

- approval of policies/strategies for ESG risk management by the board of directors/management board/supervisory board;
- definition of roles and responsibilities for ESG risk management implementation;
- budget allocation for ESG risk management implementation;
- development and implementation of ESG training programs;
- incentives for ESG risk management (e.g. linking executive compensation to key ESG indicators);
- policies/procedures for identifying, classifying, measuring, monitoring, and managing ESG risks and performance throughout the financing lifecycle;
- regular review and monitoring of ESG risk exposure at the aggregate portfolio level;

- establishment of external stakeholder grievance mechanisms related to ESG practices;
- reporting on ESG risk management performance internally (e.g. to the executive committee/board) and externally (e.g. to the regulator and/or industry association through annual reports);
- monitoring of credit risk and/or financial returns related to ESG risks.

Development and implementation of policies and supervisory mechanisms to support the implementation of the ESG rules, principles, and other frameworks such as:

- in the fiscal policy domain: integration of ESG risk assessments into public procurement and public investment policies;
- supervisory actions and financial policies: for example, incorporation of ESG factors into credit assessment processes, inclusion of ESG risk management requirements in the supervisory review and evaluation process (SREP), updating supervisory rating systems to account for ESG risk management, inclusion of ESG risk management requirements in banking licensing requirements, and assessment of ESG risks in credit/funding applications.

Technical guidance refers to the development of binding or non-binding guidelines and other tools that provide detailed instructions on integrating ESG risk management into financial institutions' management systems and due diligence processes as required by financial regulators/supervisors or industry associations. This may include: guidelines for the design and implementation of environmental and social governance systems; sector-specific guidelines; a list of sector-specific risks; ESG manuals/tools/checklists/guidelines for ESG integration into credit ratings; ESG action plans/monitoring templates; ESG reporting templates; ESG benchmarking/assessment tools for financial institutions and companies.

Data collection and reporting involves defining methodologies for the collection and disclosure of data to monitor integration of the ESG principles within the financial sector. It includes creating, enhancing or expanding mechanisms for collecting, monitoring, and regularly publishing data related to the ESG framework integration by financial institutions, such as: portfolio ESG due diligence reports, regular ESG reports, requirements or guidelines for integrating ESG information into annual reports, development of common ESG reporting metrics, development of aggregate ESG corporate reports or inclusion into financial stability reports, creation of ESG information databases and methodologies for environmental accounting.

Promotion of ESG principles and raising awareness of their importance

Projects and innovative products should be developed to promote ESG principles and increase awareness of their importance. Efforts should be made to promote markets for new green, social, and sustainable financial instruments, as well as to foster public-private partnerships for green innovation. This includes establishing mechanisms for the preparation and scaling of sustainable projects such as: new product designs, identifying and developing green/social/sustainable projects, piloting new projects, conducting market assessments, creating sustainable project/technology databases, building technical assistance facilities, developing matchmaking platforms, and

standardizing and labelling green/social/sustainable products. Development of **sustainable digital finance** involves promoting and developing digital platforms that facilitate access to green financial products.

PILLAR 2 – Climate and nature-related risk management and supervision

Climate and nature-related risk management refers to a new approach to risk management and disclosure practices that financial institutions can adopt to mitigate the impact of changes and adapt to those changes.

The key elements of climate and nature-related risk management are:

- governance,
- strategy,
- risk management,
- stress tests and scenario analyses,
- disclosure of results.

The impacts of climate and nature-related changes as well as their implications for the financial sector and the economy are identified through **research, analyses, and assessments**. It is necessary to assess the financial sector's exposure to identified climate and nature-related risks, but also to incorporate their potential future impacts on the financial sector into scenarios during the conduct of stress testing.

By conducting and publishing research and/or assessment studies and the ensuing results, it is possible to identify: historical impacts of climate change, nature, and biodiversity on the economy and the financial sector, and/or expected future impacts resulting from physical and transition risks (including stress testing and scenario analysis), GHG emissions (relative contributions by key sectors), potential investment opportunities, barriers and possible solutions, as well as cross-border implications of identified risks and impacts.

Development of policies and frameworks for the purposes of supervision and management of climate and nature-related risks defines expectations for financial institutions to integrate climate and nature-related risks into financial and business operations, including governance, strategy, risk assessment and risk management, and disclosure requirements.

Some of the best practices for financial institutions defined as part of the *Climate and Nature-Related Risk Management Framework and Policy Principles* are:

- approval of a climate and nature-related risk management policy/strategy by the board of directors/supervisory board;
- defining the roles and responsibilities for identifying, assessing, and managing financial risks and opportunities related to climate and nature-related change;
- establishing/integrating climate and nature-related risks into existing risk management procedures and processes;

- identifying, measuring, and reporting exposures to sectors sensitive to transition and physical risks (e.g. scenario analysis, stress testing);
- setting targeted goals for the reduction of GHG emissions in portfolios, as well as monitoring and reporting on them on a regular basis;
- adopting performance targets with a view to reducing exposure to climate change risks at the portfolio level, and their regular monitoring and reporting;
- reporting on a comprehensive approach to risk management related to climate and nature-related changes, both internally (e.g. to an executive committee or a board) and externally (e.g. to the regulator, industry association, through annual reports), in accordance with international standards such as the TCFD⁶ and the TNFD⁷.

Technical guidelines include the development and drafting of guidelines for managing climate and nature-related risks in the financial sector, as well as other types of tools for financial institutions to enable them to assess and manage the financial sector's exposure to climate and nature-related risks. These may include: guidelines and tools for the assessment and management of risks at the portfolio and transaction level related to climate and nature changes; analysis of exposures to climate and nature-related risks; scenario analysis and guidance for stress testing; tools for assessing the carbon footprint in portfolios; setting targets based on the Paris Agreement; and sector-specific guidelines.

Supervisory activities and incentives include the development of supervisory guidelines for monitoring climate and nature-related risks. These guidelines enhance and/or expand mechanisms that support the implementation of regulations, principles, and other frameworks for managing these risks, such as those in:

- **investment** – this includes negative findings during ESG risk assessments or the exclusion of assets with high climate and nature-related risks arising from bank investments, monitoring portfolio climate targets, issuing guidelines for risk assessment when submitting financing applications, and assessing the carbon footprint in portfolios;
- **integration of climate and nature-related risk assessments into public policies** such as public procurement;
- **macroprudential regulations** – this is to be achieved through setting risk concentration limits, imposing additional capital requirements to address concentration risks, and setting expectations to integrate climate and nature-related risks into banks' internal capital adequacy assessment processes or insurers' own risk and solvency assessments;

⁶ The TCFD as the task force developed four recommendations on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions (TCFD, 2017).

⁷ Building on the market's experience with climate-related reporting over the past decade and the work of the TCFD, the TNFD recommends 14 disclosures to promote the provision of clear, comparable and consistent information by companies to investors for the assessment of nature-related risks.

- **supervisory actions** related to the evaluation and monitoring of financial institutions' implementation of expectations, integrating climate and nature-related risk analysis and management requirements into supervisory frameworks (e.g. SREP), targeted on-site supervision of climate and nature-related risk assessments, or updating supervisory rating systems to take into account climate and environmental risks;
- **incentive mechanisms** that should be developed for sound management of climate and nature-related risks. For example, incentives may include financial rewards, rankings, or awards for reporting achievements.

Data collection and disclosure require defining methodologies for collecting and publishing data on financial institutions' exposure to climate and nature-related risks. This involves creating, improving or expanding mechanisms for collecting, monitoring or regular disclosure of data at the market and/or financial institution/company level regarding the management of climate and nature-related risks, including disclosure requirements, disclosure guidelines, the development of common reporting metrics, conducting periodic market surveys, developing periodic aggregate reports (e.g. embedded in financial stability reports), and establishing databases.

PILLAR 3 – Sustainable finance flows

According to the UNFCCC definition, “Climate finance refers to local, national or international financing – drawn from public, private and alternative sources of financing – that seeks to support mitigation and adaptation activities that will address climate change”. According to the definition of the UNFCCC Standing Committee on Finance (UNFCCC-SFC, 2014): “Climate finance aims at reducing emissions of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts”.

Financing sustainability refers to initiatives by regulators, supervisors, and the financial system aimed at ensuring capital flows to activities that support objectives related to climate change impacts, the green economy, and society. This includes the development of new products such as green bonds and green loans to finance projects contributing to sustainable development. These initiatives involve setting definitions, guidelines, adoption, and application of taxonomies, monitoring, and incentives.

Taxonomy involves the definition and classification of economic activities that are eligible from a sustainability perspective. Development of taxonomies, definitions, classifications, labelling, activity catalogues or similar frameworks helps the financial sector to identify and promote the allocation of capital towards sustainable assets, sectors, and projects.

Research and assessment of the current situation and needs for sustainable finance should be conducted. This enables a better understanding of the market environment and the assessment of overall or specific needs for sustainable financing, existing flows, gaps, priority sectors, and potential projects. These assessments can include broader evaluations as well as more specific assessments of needs in targeted sectors/topics (e.g. green finance, biodiversity finance, and financing for energy-efficient housing units).

Financial system supervisors should adopt policies related to the challenges of financial sustainability. This involves developing policies, regulatory requirements or voluntary frameworks related to green/social/sustainable instruments (loans, bonds, insurance), setting goals and standards to finance sustainability, including investment targets and requirements to ensure credibility, management, and measurement of the resulting impacts.

While these frameworks primarily support or mandate the behaviour of financial institutions, some may focus on principles of responsible investment and policies for investment activities of the financial system regulators.

Regulatory framework should be set up to include the development of a framework for monitoring the sustainability of financial sector investments. This includes, for example, creating a framework for issuing green bonds in line with the EU Green Bond Standard (EC, 2023).

Technical guidelines and tools should be developed. **Technical documentation** will support financial institutions and companies in identifying, measuring, monitoring, and reporting on sustainable assets and their impact. This includes developing technical guidelines for the development and issuance of green, social, or sustainability-linked financial products (e.g. loans and bonds) and an ESG guide for financial institutions' investments.

Supervisory activities and incentives include the development and implementation of financial policies and supervisory activities to support the allocation of capital towards sustainable projects.

Supervisory guidelines should be prepared in accordance with the supervisory mandate and should include support for inclusive finance through the development of financial products for vulnerable groups and small enterprises, as well as microfinance for sustainable projects (green inclusive finance), gender-based finance (implementation of the We Finance Code⁸ and Women on Boards⁹ programs). Additionally, financial policies and supervisory activities should be developed and implemented to support the allocation of capital towards sustainable projects, for example through the integration of green/sustainable investment targets into investment policies, setting investment thresholds for green/sustainable bonds, introducing requirements for green/sustainable public procurement, adjusting risk and capital reserve requirements for green assets, setting ranking systems, incentives, and monitoring the credibility of sustainable instruments during supervisory activities.

⁸ The project aims to enhance financing for micro, small, and medium-sized enterprises (MSMEs) owned and/or managed by women in Montenegro. It is part of a global initiative through which supervisors, financial service providers, development banks, and other stakeholders in the financial ecosystem commit to working together to increase financing for women-owned MSMEs. Additionally, the project improves statistics on women's participation in businesses and financial institutions.

⁹ Through this project, Montenegro's business environment is being prepared for the implementation of the EU Directive 2022/2381 on balanced gender representation in economic decision-making positions. This will be transposed through amendments to Montenegro's Law on Business Entities by strengthening and promoting women's leadership potential for participation on the boards of directors of large private and public enterprises.

Creation of incentives includes introducing ranking systems, awards, and financial benefits for financial institutions that adopt ESG practices, such as preferential interest rates, results-based payments, and green/sustainable bonds on stock exchanges.

Data and reporting refer to defining methodologies for collecting and publishing data on sustainable finance, establishing systems for data collection, analysis, and publication by supervisors related to financial institutions' investments in assets, projects, or sectors focused on sustainability, as well as developing, improving, or expanding mechanisms for collecting and/or publishing data from financial institutions or other sources on capital allocation toward green/social/sustainable assets, projects or sectors.

External verification models should be introduced to provide external verification of green and sustainable projects, for example by introducing green passports. Establishing or expanding market mechanisms for the external verification of green/social/sustainable projects, instruments, and their impacts may include the development of regulations and requirements for verifiers, development of standards/guidelines for verification, mandatory external verification for sustainable products, providing subsidies for verification, training of verifiers, and creating a local market/pool of verifiers.

Implementation and Success Measurement

The implementation of the Financial Sector Roadmap Towards Sustainable Finance requires a comprehensive and coordinated approach that involves regulatory reforms, the development of innovative financial instruments, capacity building for institutions, and active participation of the private sector. The key stakeholders in the implementation process are the Financial Stability Council, supervisors of all three segments of the financial market (CBCG, ISA, CMA), the Ministry of Finance, banks, insurance companies, investment funds, and other financial system institutions.

The first step in the implementation is the establishment of a regulatory framework that will encourage sustainable finance practices. This includes the passing of new regulations and guidelines for financial institutions, the definition of ESG standards, and the promotion of transparency in reporting on sustainable investments. In parallel, it will be necessary to develop financial products such as green bonds, ESG credit lines, and funds for sustainable projects, thereby enabling the mobilisation of capital towards key sustainable development sectors.

Education and capacity building of financial institutions and businesses represent crucial aspects of the Roadmap's implementation. Organisation of training sessions, workshops, and strategic partnerships will help financial institutions adopt international sustainable finance standards and develop internal capacities for assessing risks related to climate change and ESG factors. In addition, it is necessary to raise awareness among businesses about the benefits of sustainable operations and the ways to access green finance.

The success of the Roadmap will be measured against established indicators that allow for monitoring the progress in integrating sustainable finance into the economic system. Key indicators will include the volume and value of sustainable investments, the number of issued green bonds and ESG loans, the level of alignment of financial institutions' operations with the ESG standards, and changes in the legislative framework that support sustainable finance.

The implementation of the Roadmap will be monitored by the **Financial Stability Council** that will play the key role in overseeing the execution and assessing the impact of the activities defined in the Roadmap on Montenegro's financial system. **An inter-institutional working group**, composed of financial system regulators, supervisors, and the Ministry of Finance will prepare progress reports to be submitted to the **Financial Stability Council twice a year**. This working group will analyse the achieved results, identify obstacles, and propose corrective measures to ensure the effective realization of the Roadmap's objectives.

With ongoing evaluation, adaptation of the Roadmap and capacity building Montenegro's financial sector can become the key driver of sustainable economic development and contribute to global efforts in combating climate change and environmental challenges.

Roadmap Implementation Schedule

AREA	ACTIVITY	Q1-Q2 2025	Q3-Q4 2025	Q1-Q2 2026	Q3-Q4 2026	Q1-Q2 2027	Q3-Q4 2027	Q1-Q2 2028	Q3-Q4 2028
Integration of ESG principles	Defining the ESG framework								
	Promotion of ESG principles and raising awareness of their importance								
Climate and nature-related risks management and supervision	Drafting a climate and nature-related risk management policy								
	Development of guidance for managing climate and nature-related risks in the financial sector								
	Defining methodologies for collecting and publishing data on financial institutions' exposure to climate and nature-related risks								
	Drafting of supervisory guidelines for managing climate and nature-related risks								
	Developing and conducting climate stress testing								
	Developing of financial sector stakeholders' business practices and portfolios that are aligned with the ESG principles								
Sustainable finance flows	Adopting the national taxonomy (RCC)								
	Drafting a framework/guidance for the application of taxonomy, development and issuing green/social/financial products aimed at sustainability								
	Developing a regional standard for green bonds (RCC)								
	Consider/develop mechanisms of financial/nonfinancial incentives for adequate management of climate and nature-related risks, inclusive financial products for vulnerable groups and small and medium enterprises, with favourable financing conditions for sustainable projects								
	Promotion and introduction to external mechanisms for verifying sustainable projects/investments								
Capacity building	Capacity building of financial sector institutions related to the development of ESG products								
	Capacity building of financial sector institutions related to the application of ESG principles								
	Capacity building of financial sector institutions for managing climate and nature-related risks								
Governance structure	Establishing an inter-institutional working group for monitoring the Roadmap application and establishing the monitoring framework (Action Plan)								
Monitoring, evaluation and reporting	Drafting semi-annual reports on Roadmap implementation								
International Cooperation	Establishing cooperation with international financial institutions and organisations for the implementation of best practice in sustainable finance								

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