

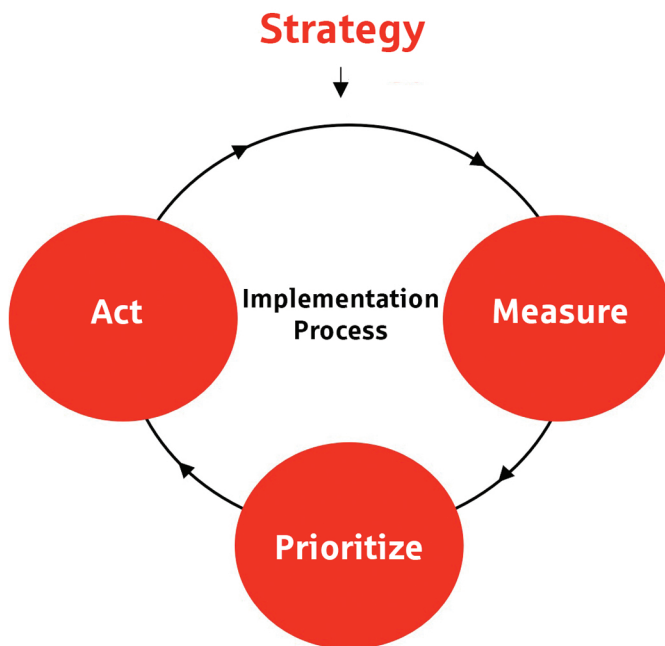
Step 3: Prioritize

The result of the assessment in step 2 serves as a basis for defining priorities and targets. Concrete measures can be derived to improve the substance of the implementation - especially for areas which were underdeveloped compared to others. The repetition of the Green Finance Compass procedures after a certain period supports the controlling of the progress compared to the self-set targets.

Step 4: Act

After priorities and targets are defined, financial institutions need to implement the project to reach these targets. Most financial institutions focus on the development of green financial products and the management of ESG-risks, especially in the loan portfolio.

In addition to the Green Finance Compass, the Risk Radar was developed to assess ESG-risks at the sector and loan-level.



Think globally, act locally, cooperate internationally

Sparkassen (Savings banks) were first introduced in Germany some 200 years ago as microfinance institutions for low-income earners. Since then, they have evolved into one of the largest financial groups in the world, successfully combining a high level of professionalism with a strong social mandate.

The mission of the Deutsche Sparkassenstiftung für internationale Kooperation e.V. (German Sparkassenstiftung for International Cooperation) is to disseminate this experience to developing countries and emerging economies.



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In cooperation with **Kempton University**



Green Finance Compass

German Knowledge for Sustainable Banking



Financial institutions in transition to a sustainable economy

Banks and microfinance institutions raise the question on how to:

- Grasp the opportunity of “green” transition right now?
- Manage the risks arising from climate change?
- Fulfilling the requirements of regulators and investors?

The number of companies - potential customers of financial institutions - that want to do business sustainably is increasing rapidly. They face the challenge of how to adapt to new frameworks and conditions under the effect of climate change, accompanying policies and economic changes.

Change requires investments that need to be financed. This opens an unprecedented business opportunity for financial institutions which must respond to this need with green financial products.

Natural disasters have become a severe problem. In this context, organizations, which are unable to adapt to the green-economy transition, will become vulnerable. This results in a considerable increase in loan defaults for Financial Institutions. This Environmental, Social and Governance (ESG) risks must be identified and managed.

Ultimately, financial institutions themselves must adapt by creating more sustainable business processes as this will be required by regulation and stakeholders.

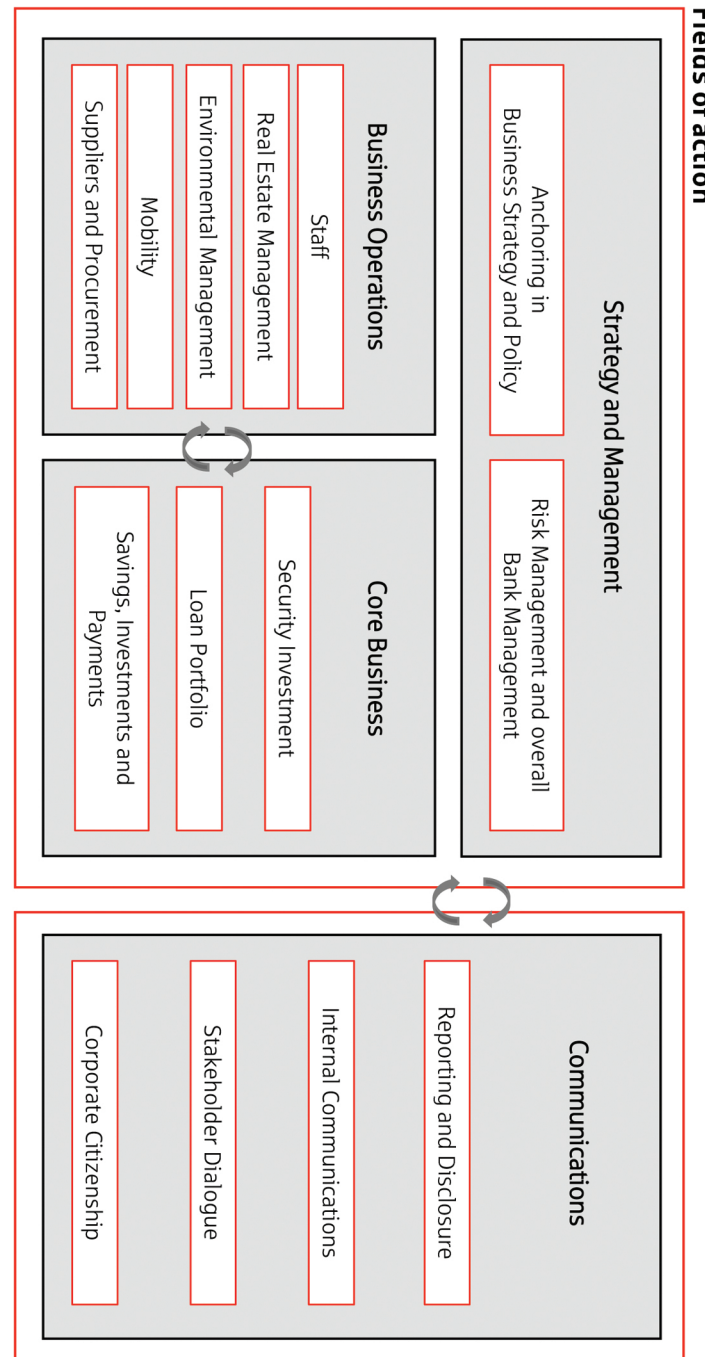
The Green Finance Compass is the key to supporting this transformation process

What is the Green Finance Compass?

The Green Compass is a pragmatic approach to assess the status quo of Green Finance implementation in financial institutions. On that basis, it helps them to set adequate targets and pursue them in a coherent way.

The systematic concept ensures that all areas of the financial institution are considered. The Green Finance Compass covers strategy and management, business operations, core business and communication.

It is a proven tool that is successfully implemented in more than 400 financial institutions in the world



Transition journey to sustainability

Step 1: Strategy decision

Financial institutions need to decide which sustainability-related targets they want to set for themselves and how to achieve them. This can be narrowed down to four areas:

- Strategy and Management
- Business Operations
- Core Business
- Communications

Does the institution consider sustainability as a current market trend or does it see sustainability as an opportunity to differentiate from others? Is it willing to dedicate necessary resources to the transformation process?

Further steps depend on the priorities of the organizations. There is no pre-defined target level in the Green Finance Compass but it is tailored to individual needs of each institution. Financial institutions can review their targets regularly.

Step 2: Measure

The financial institutions might have implemented already different measures related to sustainability. Therefore, the degree of implementation will be assessed from qualitative and quantitative aspects. The Green Finance Compass gives an objective and transparent picture of the status quo.

