NAVIGATOR

D5.1 MAPPING THE GOVERNANCE OF FINANCIAL FLOWS: INSTITUTIONS, NETWORKS AND IMPLICATIONS FOR THE CLIMATE ACTION

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Abstract

Global financial flows represent one of the key components of our economic systems owing to continuous globalization of trade and liberalisation of financial regulation. These developments resulted in recurring financial crises and financial stability got elevated to the very top of policy agenda, both nationally and among multilateral institutions. Financial policy domain is often characterised by 'closed' policy circles and 'club-like' communities that set international standards and best practices that govern financial flows.

The governance of financial flows is made up of a mix of formal and less formal institutions with various decision-making mechanisms, as well as a plethora of private groupings which provide expertise, representation, advocacy, and infrastructure. These institutions operate transnationally, that is their members and constituencies can be found across levels and institution types; they are involved in multilateral, intergovernmental, and supranational modes of governance with continuous interactions and feedback loops between private and public policy actors.

With the more recent rise of 'green finance', financial flows have been described as an important enabling element of the green transition. Starting with the Paris Agreement, the policy task of 'aligning' finance with the climate goals has been part of climate action worldwide and particularly in the EU.

In this working paper we provide an overview of key actors in the governance of financial flows with varying degrees of formalization of structures, representation, and interest in operationalizing or reforming international policy practice. We then consider how the EU (as a supranational body as well as through its Member States) is involved and how climate-related aspects of finance feature in the work of these transnational actors. There is a lot of intersection of workstreams between a number of these organisations – particularly in the growing area of green finance and climate-related aspects of financial regulation and investments.

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Introduction

Global financial flows represent one of the key components of our economic systems owing to continuous globalization of trade and liberalisation of financial regulation. These developments resulted in recurring financial crises and financial stability got elevated to the very top of policy agenda, both nationally and among multilateral institutions. Financial policy domain is often characterised by 'club-like' communities of 'financial elites' (Tsingou 2014) and 'closed' policy circles (Mikheeva and Tõnurist, 2018) that set international standards and best practices that govern financial flows. In addition, globally operating financial firms exert influence on these very international standards through policy advocacy and less formalised channels. These interconnected transnational expert-led networks have been institutionalised while maintaining close links with the major multilateral decision-making forums, such as G20, the World Bank and the IMF.

With the more recent rise of 'green finance', financial flows have been described as an important enabling element of the green transition. Starting with the Paris Agreement, the policy task of 'aligning' finance with the climate goals has been part of climate action worldwide and particularly in the EU. The EU Sustainable Finance Framework represents one of the pillars of the European Green Deal in line with the European Climate Law.[1] International climate finance represents both private and public financial flows, which are expected to increase through mobilising investments in green sectors. There are also explicit commitments from countries of the Global North to channel green finance for investments in the Global South.

The governance of financial flows is made up of a mix of formal and less formal institutions with various decision-making mechanisms, as well as a plethora of private groupings which provide expertise, representation, advocacy, and infrastructure. These institutions operate transnationally, that is their members and constituencies can be found across levels and institution types; they are involved in multilateral, intergovernmental, and supranational modes of governance with continuous interactions and feedback loops between private and public policy actors.

In this working paper we provide an overview of key actors in the governance of financial flows with varying degrees of formalization of structures, representation, and interest in operationalizing or reforming international policy practice. We then consider how the EU (as a supranational body as well as through its Member States) is involved and how climate-related aspects of finance feature in the work of these transnational actors.

In the first instance, we select four actors dealing with the seemingly technical matter of cross-border financial flows. The following actors have been selected based on their governing roles in the framework, be it building and developing cross-border infrastructure, or determining the principles that enable or constraint financial flows:

- SWIFT
- Financial Stability Board (FSB)
- Financial Action Task Force (FATF)
- Global Forum on Remittances, Investment and Development (GFRID)

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In the second instance, we select four actors that play key roles in defining international standards in the area of climate finance and green investments. The following actors have been selected based on their advocacy- and technical expertise in financial supervision, climate-related risks and efficiency of global financial markets:

- Basel Committee on Banking Supervision (BCBS)
- Network for Greening the Financial System (NGFS)
- Coalition of Finance Ministers for Climate Action (CoFMs)
- Institute for International Finance (IIF)

In examining the work of selected actors, we are following the methodology based on the notion of 'search costs' as described in Box 1 below.

Box 1. The NAVIGATOR methodology

NAVIGATOR launches the concept of "search costs" to understand the time and resources used in identifying, assessing and choosing between different forms of governance mechanisms for solving global challenges. To help develop and gain empirical insights on what this entails for the EU and individual European states, NAVIGATOR is mapping the variation in governance mechanisms across different issue-areas. We focus on the degree of formality (formal/informal), accessibility (open/closed), and normativity (technical/normative) of different governance arrangements (organizations and more informal arrangements). This, we submit, is important for assessing what type of legitimacy is likely to be vested, or not, in these organizations, which is of importance for considerations of what types of governance arrangements best matches the interests and values of the EU. In some areas we expect to find the persistence of multilateralism, while in others more private and informal governance arrangements will dominate. NAVIGATOR also hypothesizes that there will be variation in the strategies chosen in different issue areas, depending on path dependencies, sunk costs, and the availability of alternative arrangements. In so doing, the project aims to offer a more robust empirical basis from which to assess the evolution of governance mechanisms and how the EU can navigate them to advance its interests. (Sending et al., 2024).

Different modes of and variations in governance mechanisms across issue-areas imply that the EU and Member States dedicate time and resources for making sense of these complex governance arrangements. Therefore, when presenting each of the eight selected actors that appear systemically important for the governance of financial flows we also assess these actors in relation to key variables, ie the degrees of formality (formal/informal), accessibility (open/closed), and normativity (technical/normative), as summarised in Table 1.

Table 1. Overview of selected policy actors according to the methodology dimensions

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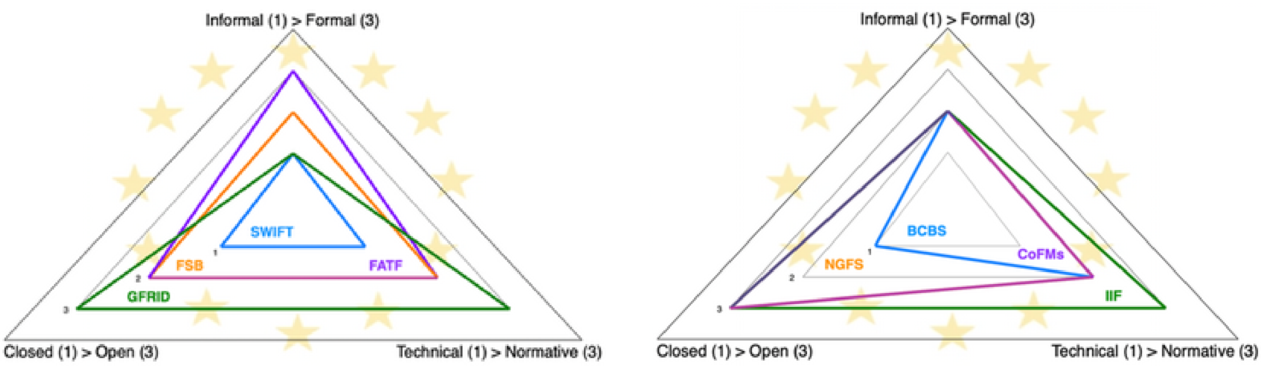
Table 1. Overview of selected policy actors according to the methodology dimensions

	Informal/Formal (1-3)	Closed/Open (1-3)	Technical/Normative (1-3)
SWIFT	1	1	1
FSB	2	2	2
FATF	3	2	2
GFRID	1	3	2
BCBS	2	1	2
NGFS	2	3	2
CoFM	2	3	2
IIF	2	3	3

Source: authors

This comparison enables us to identify what options exist for EU actors (and member states) to meet their objectives in this policy area. The EU has a standing commitment to a global regime of free capital flows and to the financial integrity of the global financial system. It also maintains that efficient cross-border payment systems support financial flows in a way which benefits global economic activity and financial inclusion.

Figure 1. Selected actors compared according to the methodology dimensions



Source: authors

In addition, as we will see, there is a lot of intersection of workstreams between a number of these organisations – particularly in the growing area of green finance and climate-related aspects of financial regulation and investments.

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SWIFT

SWIFT, the Society for Worldwide Interbank Financial Telecommunication, is the world's main provider of financial messaging services, delivering and supporting the bulk of the infrastructure for cross-border financial flows. SWIFT provides the structure that enables cross-border payments and helps global business activity appear seamless by connecting financial institutions across the world through correspondent banking. SWIFT is a member-owned private entity organized as a cooperative of banks and it is headquartered in Belgium. It was established in the 1970s as a technical facilitator for its members and maintains its policy neutrality.[2]

When we consider SWIFT along the key dimensions of formality, representation and normativity, SWIFT is:

Informal:
SWIFT is a cooperative entity and its members are private actors; it is only governed by the EU law because of its registration in Belgium.

Closed:
SWIFT is for the most part a banking sector network. It has introduced different membership categories over time to partly account for geographical representation and entity type.

Technical:
SWIFT is a messaging service enabling payments (it is a data infrastructure, not a platform for the transfer of funds). Its publicly stated mission is one coupling efficiency with neutrality.

SWIFT's early activity closely mirrored its technical purpose by providing efficiency and security in a world of Telex and uneven technological development. Its success in attracting members turned it into a banking sector network with significant market concentration, challenging its neutrality claims by privileging the role of banks in cross-border flows (Scott and Zachariadis 2012). Controlling the global payments infrastructure also brought attention to the political nature of its power, especially in reflecting geopolitical and colonial legacy of global power asymmetries (de Goede 2020; Nance and Tsingou 2025). This has become most obvious in the context of the politics of economic sanctions and the way in which SWIFT has been used to monitor, and eventually exclude, specific actors from the global financial system (Farrell and Newman 2019; Robinson, Dörry and Derudder 2023), as well as blocking access to US dollars for global business activities (McDowell 2020).

<u>What is the EU's involvement</u>

The EU does not have formal representation in SWIFT. Most of the banks operating in EU jurisdictions are SWIFT members, however, and there are some oversight rights that the EU holds through virtue of SWIFT's registration in Belgium. Further, we identify three key policy areas that make EU engagement highly relevant:

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- The economic sanctions regime. The jury is still out on the importance of using a payments infrastructure for economic sanctions. There has been substantial evidence of the US successfully weaponizing SWIFT in its pursuit of foreign policy objectives with respect to Iran—and the EU's own attempt to provide an alternative for banks in its territory was short-lived (de Goede and Westermeier 2022), highlighting the dominance of the incumbent in infrastructure provision. At the same time, mobilizing SWIFT for economic sanctions against Russia since the invasion of Ukraine in 2022 has not brought about the expected results. The EU should be mindful too that alternatives are developing away from SWIFT, including CIPS (China International Payments System) (Nölke 2022). This is a policy area where the EU would need to continue engaging consistently with the US but also attempting to generate support for its strategic objectives beyond its traditional allies.

- The development of the non-banking financial sector and its role in cross-border flows. The emergence of fintech and the digitalization of finance have brought new actors in the area of cross-border flows. Within the EU, these developments have been further promoted through legislative frameworks that have removed some barriers to entry to newcomers (Brandl and Dieterich 2021). The EU needs to remain vigilant of cross-border activity for both banks and non-banks and consider what trade-offs may be at play in light of both fair competition and security concerns.

- Data privacy. Following the reconfiguration of the finance/security nexus after the 9/11 terrorist attacks, public actors made assessments about what data can be accessed and shared. The so-called 'SWIFT affair'—where the EU had initially agreed to share SWIFT personal data with US authorities (de Goede 2011)—highlighted the significance and sensitivity of the information amassed in the context of financial infrastructure provision. In the years that followed, the EU has taken a more active normative stance on data protection and needs to consider competing strategic priorities in continuing to monitor SWIFT activities.

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Financial Stability Board

The Financial Stability Board (FSB) is the international body charged with overseeing the implementation of G20 recommendations pertaining to financial regulation and stability (Helleiner 2010). Based in Basel, Switzerland, it was created in 2009 by the G20 following the Global Financial Crisis, superseding the Financial Stability Forum (Germain 2001). The FSB operates with a small secretariat, with most of the work undertaken by appointed committees of national central banks, supervisory agencies, and ministry officials. While its initial focus was almost exclusively on financial system reform, since 2020, it has been tasked by the G20 to address inefficiencies in cross-border payments (including remittances) and make payments more seamless (faster and cheaper), more accessible and more transparent.[3] The work started under the G20 presidency of Saudi Arabia based on a drive to address issues affecting financial inclusion on a global scale.

When considering the FSB along the key dimensions of formality, representation and normativity, we find the FSB midway in the respective continuums:

Between Informal and Formal:
The FSB is a public body that promotes standards and monitors implementation but has no formal powers (Saz-Carranza et al. 2023).

Between Closed and Open:
The FSB has twenty-four member states and an additional thirteen members representing standard-setting bodies, international organizations and EU institutions.[4]

Between Technical and Normative:
The FSB oversees technical standards but also issues 'roadmaps' which identify plans or 'building blocks' needed to reform elements of the financial system. The work on cross-border flows and payments systems specifically prioritizes some efficiency activities over others and is informed by narratives of financial inclusion.

The FSB focus on cost, speed, access, and transparency comes with specific and measurable targets. The overall framework acknowledges both the breadth of the harmonization undertakings (system interoperability, legal and regulatory parameters, and data exchange and message standards) and the wide variety of relevant stakeholders in the public and private sectors.

<u>What is the EU's involvement</u>

The EU is represented in the FSB though memberships for the European Commission (DG for Financial Stability, Financial Services and Capital Markets Union), and the European Central Bank and the Single Supervisory Mechanism. The Basel-linked standard-setting fora are especially important for the EU as there is a long-standing expectation of translating standards into EU directives proposals. On the issue of cross-border flows, the EU has worked to strengthen its own payments systems within the Eurozone through TARGET 2 (Trans-European Automated Real-time Gross Settlement Express Transfer System), a platform which processes Euro transactions in real time within the Eurozone (Krarup 2019).

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But the work of the FSB is the first formal involvement in addressing payment efficiency beyond the Eurozone. In this context, we identify three key policy concerns in assessing EU engagement:

- The technical is political. The parameters of the policy process are set by officials from the most advanced financial centres. The focus on cross-border flows is being framed in technical terms but even highly technical processes are inherently political in their definition of efficiency and the constituencies they serve (cf. Quaglia 2010). EU representatives in the FSB process need to remain mindful of political and material interests associated with standard development.

- Reconciling competence and accountability. The FSB is a body that can mobilise substantial expertise and competence. Yet its design limits its claims to authority and legitimacy with inherent tensions between technocracy and competence on the one hand and accountability and management of distributional effects on the other. Operating in a transnational space conducive to cooperation and consensus, it arguably suffers from the lack of accountability and representation associated both with national level processes and with the big power politics (Knaack 2023, Rixen and Viola 2020). The EU needs to consider legitimacy questions in the work of the FSB.

- Expertise and resources in new fields. The FSB's work on cross-border flows is also important because it explicitly acknowledges the diversity of financial institutions involved in the global flow of money, attempting to move on from a framework that is dominated by banks and understood and regulated accordingly. International cooperation on relatively new ways of doing finance has proven more challenging, arguably due to the need to develop new expertise, as well as the practice of regulating according to institution type, not function (cf. James and Quaglia 2024). The EU can be proactive both as a producer of policy knowledge in this field and in continuing to develop regulatory best practice across providers of financial services.

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Financial Action Task Force

The Financial Action Task Force (FATF) is a specialist global body with an explicit anti-money laundering mandate that aims to safeguard the integrity of the global financial system by introducing control checks on the flow of money. It was established in 1989 by the Group of Seven (G7) and is based in Paris. It issues recommendations and guidance, and promotes global legislative and regulatory standards on anti-money laundering and, since 2001, combatting the financing of terrorism (Nance, 2018). It has a small secretariat and operates primarily through committee work of relevant public officials from member countries and a system of peer review through regular mutual evaluations of national systems (Tsingou 2022).

When reviewing FATF along the key dimensions of formality, representation and normativity, we find FATF presents a mixed picture:

Formal:
FATF is a public body that has a mandate to produce recommendations but has no formal powers to make them binding. The mutual evaluation processes it oversees, however, are public monitoring exercises which have led to strong expectations of compliance and the potential for penalties for jurisdictions that fall short (Morse 2019, Case-Ruchala and Nance 2024).

Between Closed and Open:
FATF has forty members as well as institutional associate members and observers.[5] A FATF membership criterion is of strategic importance. Non-FATF countries participate in regional level bodies.

Between Technical and Normative:
FATF claims a strong technical focus but its work is informed by broader normative agendas. It follows the money to get to crime and the inclusion of terrorism and proliferation financing over the years broke with the methodological technical consistency in the standards. Its more recent work on unintended consequences is also linked to normative concerns.[6]

FATF produces standards that are assessed and rated in terms of technical compliance but also perceived effectiveness. While governing cross-border flows has been at the core of FATF's activities from the outset, it has recently undertaken additional work on unintended consequences, including a focus of the effects of anti-money laundering standards on financial inclusion and access to the global financial system of those in jurisdictions with a lower administrative capacity for standard adoption and compliance.

<u>What is the EU's involvement</u>

The European Commission is a formal member of FATF and Europol and the European Central Bank are observers. The European Commission has, from the early days of FATF, closely mirrored its anti-money laundering directives based on FATF recommendations. In addition to its FATF involvement, the EU has in recent years worked to consolidate its internal anti-money laundering efforts through institution

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building and the creation of the new Authority for Anti-Money Laundering and Countering the Financing of Terrorism. In further considering the EU as an actor in FATF's global governance of anti-money laundering context, we note three important policy challenges:

- Power asymmetries in a political regime. Elements of FATF's work are unapologetically political, including its membership criteria. The global power asymmetries are also explicit in the top-down production and diffusion of standards, which are set by the policy priorities and the capacity of mostly European and North American countries and large financial centres (Drezner 2007). The EU needs to be mindful of these enduring core/periphery dynamics. While it has, in the past decade, more actively engaged in capacity building through the EU Global Facility on Anti-Money Laundering and Countering the Financing of Terrorism, it needs to reconsider long-term governance arrangements.

- Problem definition. FATF operates against a background of severe data gaps in the field of anti-money laundering (Levi et al. 2018). There is a lack of reliable data on volumes but also processes and locations, and insufficient precision of the relative importance of domestic and cross-border settings. The EU can contribute to more transparency and data veracity to develop a more appropriate problem definition and better allocate attention and resources.

- Competing policy priorities. Within the EU, there has been some tension between officials working on anti-money laundering and those working on data privacy issues. This is an even greater challenge in the global context, where there is a substantial risk of misuse and abuse of compliance measures to target and prosecute individuals, groups, and organizations. The EU needs to lead debates about proportionality on implementation and compliance that respect data privacy and protect human rights.

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Global Forum on Remittances, Investment and Development (GFRID)

The Global Forum on Remittances, Investment and Development (GFRID) brings together stakeholders involved in remittances, migration and development. Established in 2005, it is led by the United Nations (UN) through its International Fund for Agricultural Development (IFAD). The UN defines it as an informal process, akin to a platform.[7] IFAD has set up a Financing Facility for Remittances (FFR) for this purpose. GFRID essentially puts in focus the actors relevant for the governance of remittances covering the nuts and bolts of cross-border financial flows (ease and costs), the economic impact of remittances for receiving individuals as well as their countries (financial inclusion, economic development), as well as the role of migrants in the global economy (and their contributions in home and host environments). GFRID is linked to the relevant universal membership international organisations (The World Bank Group, The International Organisation for Migration), the G20 (through its financial inclusion initiatives), as well as the European Commission and several country donors.

When we consider GFRID along the key dimensions of formality, representation and normativity, GFRID is:

Informal:
GFRID is a process, a platform for consolidating knowledge on the different activities related to the issue of remittances.

Open:
GFRID is open by default (it is associated with UN universal membership activities) and design (pragmatic opening to all stakeholders with an interest in a secure and cost-effective remittances framework).

Normative:
GFRID is explicitly normative in its support of a seamless remittances framework and in its advocacy of the economic opportunities associated with a robust remittances system (for the individuals involved, their communities, and both their home and host countries).

Remittances matter for how we think about cross-border flows because they are a big part of that picture. Not only are many remittance-related indicators part of the UN Sustainable Development Goals but their volumes are also sizeable, both in absolute and in relative terms. The World Bank reports that in 2023, remittances totaled USD $656 billion; for some countries, they account for 3% or more of GDP. Data from the World Bank also shows that for low- and middle-income countries, remittances far exceed foreign aid but are also larger than foreign direct investment flows (Ratha et al. 2024).

<u>What is the EU's involvement</u>

The EU is closely involved as a member, participant or donor in different parts of this process. Through the European Commission's Directorate-General for International Partnerships it has identified a set of strategic priorities that are reflected in its involvement, including to promote an appropriate technical framework for remittance flows by encouraging digitalisation, contribute to data collection on remittances and their impact, and provide assistance that can help boost the effects remittances have on economic development in receiving countries. [8] In this context, we bring attention to three policy areas where EU activity is important:

- The financialisation of remittances. Much of the discourse on remittances follows the World Bank's lead on the importance of remittances for development without paying much attention to the infrastructural politics of cross-border financial flows (cf. Rodima-Taylor and Grimes 2019). A focus on financial education, the migrant entrepreneur and remittance investments also obfuscates enduring colonial dynamics in the flow of funds, as well as the gendered effects of remittances in receiving countries (Kunz et al. 2022, Smyth 2022). EU activities should strive to break with narratives of individualisation of financial inclusion (cf. Gabor and Brooks 2017, Warnecke-Berger 2022).

- Remittances in crisis zones. A lot of the official activities regarding remittances cover receiving countries where conditions are stable. Remittances can also be vital, however, in weak states and conflict zones (Rodima-Taylor 2022). EU actors can mobilise resources to govern those processes which are characterised by more uncertainty and greater regulatory burdens.

- The rights of migrants. Remittances are an issue where several policy areas overlap: financial flows, development, digitalisation and migration. This comes into focus in times of global crisis (as at the onset of the Covid-19 pandemic, Tsingou 2021). Official work on remittances offers an opportunity to address the economic role of migrants from a holistic perspective instead of detaching it from complex migration debates (Lindley 2023).

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Basel Committee on Banking Supervision (BCBS)

BCBS, established in 1974, is the primary standard-setting authority in the field of banking supervision, which also serves as a forum for regular and systematic exchanges on cooperation related to banking supervision, particularly in the area of cross-border financial flows. BCBS was established in the aftermath of a series of financial market disturbances (in currency and banking markets) in 1970s and its global 'standard setting' function is inscribed in the BCBS's mandate found in the Charter.[9]

Starting from the Concordat[10] (1975), which laid foundations for international cooperation between national supervisory authorities in banking supervision (of foreign branches), the Basel Committee has been issuing other sets of principles, including on capital requirements known as Basel I, II and III Accords – the key frameworks for banking supervision that are recognised and adopted globally.

The principles and norms developed by the Basel Committee are not legally binding and the Committee does not have a supranational policy mandate, nor enforcement powers. Instead, members of BCBS have agreed to fully implement BCBS-issued standards for internationally active banks located in their jurisdictions. This constitutes a minimum requirement for members while countries may go beyond this minimum.

When considering Basel Committee along the key dimensions of formality, representation and normativity, BCBS is:

Formal:
Despite not having formal legal powers, the formal mandate of BCBS is enacted by commitments from all the members to follow prudential regulatory and supervisory standards and minimum requirements. In practice, this means that members commit to transpose BCBS standards and principles into their national legal spaces/frameworks within a pre-defined timeline. In other words, full membership in BCBS automatically implies adoption of BCBS principles into domestic regulation. In addition, non-member countries have been increasingly adopting these standards and principles as well.

Closed:
BCBS membership expanded from 10 initial members to 45 current members from 28 jurisdictions. Membership is granted to national supervisory authorities (ie specialised agencies and not governments) based on the importance of national banking sectors vis-à-vis international financial stability.[11] Both full members and observing members can be invited by the Committee Chair so membership is periodically reviewed.

Technical:
From the beginning, the work of BCBS has been carried out without any interference from policy makers/politicians and very little oversight from the founding G10 governors with consensus-based decisions rarely challenged outside of BCBS (Goodhart, 2011). In addition, supervisory authorities and regulators typically enjoy a considerable degree of autonomy from their respective governments – which is often prescribed by national laws. This, in turn, translates into even greater insulation from policy making at the transnational level (Viterbo, 2019).

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These characteristics make BCBS an example of a successful model of transnational cooperation whereby soft law (guidelines and principles) deliberated by national supervisory authorities at the international level effectively becomes laws at the domestic level (Milano and Zugliani, 2019). Although decision-making is characterised by legal and procedural informality with no formal voting procedures, decisions are reached through consensus – this is due to high technical expertise, small number of participants, and similar level of knowledge (Ibid, 166).

Notwithstanding occasional politicisation of financial policy making, particularly after the Global Financial Crisis, BCBS modes of working remain insulated from the everyday policymaking and hence its recommendations and standard-setting work can be considered to be of technical nature.

<u>What's the EU involvement</u>

The European Union is represented through the European Central Bank (ECB), the European Commission and the European Banking Authority while nine individual EU Member States are represented through their respective Central Banks and/or supervisory authorities. This uneven participation owes to the membership criteria (see above).

The European Commission and the European Banking Authority have a status of the observers only. The ECB, including the Single Supervisory Mechanism, is a full member along with individual Member States. This makes the ECB holding two seats at BCBS, which is due to the institutional separation of ECB's supervisory and monetary policy functions (Viterbo, 2019). The ECB evolved as the most 'powerful' EU institution although prudential regulation remains a shared responsibility between the EU institutions and Member States.[12] In other words, these various modalities of EU participation in BCBS might create institutional imbalances (to the EU overall representation) and hence challenge sincere cooperation both horizontally (ECB-EC-EBA) and vertically (EU-Member States). In practice, this implies that the ECB cannot negotiate within BCBS without properly coordinating with the Commission and EBA (despite its observer's status) while individual Member States cannot pursue negotiation agenda that would compromise the overarching common EU goals.

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Network for Greening the Financial System (NGFS)

NGFS is a well-established advocacy and standard-setting expert network of Central Banks and supervisory authorities, which develops technical standards in climate-related financial reporting and supervision, risk assessment models and stress tests that are used in monetary and regulatory policies. It was established in 2017 by eight founding members – Central Banks and financial supervisory agencies – and has a secretariat in the *Banque de France*.

The Network emphasizes voluntary membership and the willingness of financial regulators and supervisors 'to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition towards a sustainable economy'[13] (NGFS Charter 2023, 2).

The prominent rise of NGFS on the global policy arena co-evolved with the consensus among central bankers and financial industry more broadly that addressing environmental degradation and climate change should be part of the Central Banks' mandate to safeguard financial stability. Further, there are studies that demonstrate that financial markets are sensitive towards climate-related actions Central Bankers pursue within monetary policy (Fisher et al 2024). While there are self-reinforcing loops in this process globally, clearly the analytical work of NGFS also contributed to the evolution of the 'finance-driven' narrative of climate action.

When considering the NGFS along the key dimensions of formality, representation and normativity, NGFS can be described as:

Informal:
NGFS is a network organisation that relies on existing operational and human resources of its member organisations with rather informal organisational and consultative structures.

Open:
Membership is subject to approval but open to all willing Central Banks and financial supervisors; the membership dramatically expanded from eight founding members to 100+ members in just a few years (ie since 2017).

Technical:
Analytical work of NGFS has a narrowly defined technical nature and is confined to the areas of financial regulation and supervision. Although containing normative elements (eg what type of climate stress tests should be used by Central Banks today), the work of NGFS has no direct links with policymaking process of national governments.

The policy reach of NGFS's technical work is less clearcut as compared to the Basel Committee, for example. As climate-related considerations have entered financial policy making fairly recently, there is a great variation in how countries incorporate NGFS-produced principles and guidelines into their domestic regulatory contexts.

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In broader terms, we may differentiate between high-income countries with fully independent Central Banks having a more narrow policy mandates (price stability) and developing countries where Central Banks play more 'developmental role' and have a wider mandate to support economic development (Campiglio et al 2018). The former group of regulators tend to take a risk-based approach to climate action whereby climate-related risks are incorporated into analytical tools (econometric models, risk-based stress tests, forecasting exercises and scenarios) and supervisory practices used in financial regulation and supervision. The latter group of supervisors tend to incorporate climate action and climate-related standards in regulation and supervision into the broader economic policy objectives, such as promotion of green investments as part of their climate mitigation and adaption efforts (Almeida et al, 2024).

In other words, there are more variations in how newly created climate-related standards incorporated or transposed into domestic policy contexts of individual countries or operations of Central Banks as compared to minimal standards developed by the Basel Committee.

<u>What's the EU involvement</u>

The EU is represented primarily through the Central Banks and supervisory authorities located in European Member States and in fact many Central Banks in Europe have been adopting and using technical notes and documents developed by the NGFS (eg climate stress tests, incorporating climate-related risks into financial models used by Central Banks for scenario building and forecasting exercises).

Many Central Banks from across the EU are directly involved in the work of NGFS by leading on the Network's workstreams – this involves coordination of thematic workstreams but also provides access and enables direct inputs into analytical expertise developed in these sub-topics of financial policymaking. The following seven thematic workstreams are coordinated and co-chaired by respective Central Banks, of which half are in Europe, including the ECB:

- Workstream "Supervision": chaired by Ms. Mercedes Olano (Banco de España) and Mr. Donald Chen (Hong Kong Monetary Authority)
- Workstream "Scenario Design and Analysis": chaired by Mr Livio Stracca (European Central Bank)
- Workstream "Monetary Policy": chaired by Mr James Talbot (Bank of England)
- Workstream "Net Zero for Central Banks": co-chaired by Mr Paolo Angelini (Banca d'Italia) and Ms Simone Robbers (Reserve Bank of New Zealand)
- Task force "Nature-Related Risks": co-chaired by Ms Emmanuelle Assouan (Banque de France) and Mr Marc Reinke (De Nederlandsche Bank)
- Task force "Capacity Building and Training": co-chaired by Ms Madelena Mohamed (Bank Negara Malaysia) and Mr Jeffery Yong (Bank for International Settlements)
- Task force "Adaptation": co-chaired by Ms. Shelagh Kahonda (National Bank of Rwanda) and Mr. Sean Carmody (Australian Prudential Regulation Authority).[14]

The involvement of EU-based regulators in a large share of NGFS thematic workstreams – including the ECB chairing one of the workstreams – may reflect a larger overlap between the European and global policy spaces in the area of financial regulation and supervision in terms of climate-related effects on financial stability. In addition, the European Investment Bank and the European Stability Mechanism are members alongside the Financial Stability Board and the Basel Committee.

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Global Coalition of Finance Ministers for Climate Action (CoFM)

The Coalition of Finance Ministers for Climate Action (CoFM) is the emerging inter-governmental (-ministerial) forum of economic and fiscal policymakers, a policy advocacy coalition with a broad mandate to 'mainstream climate action within national governments' and 'promote green structural change'. Membership in the Coalition is country-based although countries are primarily represented by Finance Ministries or equivalent public agencies in charge of macroeconomic and financial policy making (eg Ministries of Economic Affairs.

With a secretariat based at the World Bank, the Coalition has an extensive network of institutional partners, including the IMF, NGFS, and research institutes (e.g. LSE Grantham Institute of Climate Change). The modus operandi of the Coalition was modelled after the success of the NGFS while Finance Ministries represent a more heterogenous group of agencies (as compared to more 'technocratic' Central Banks with more operational autonomy from governments) and therefore the Coalition's work sits closer to the policy making arena due to the actual policymaking functions of its members.

The Coalition operates based on the Helsinki Principles[15] that prescribe principles of why Finance Ministries should be actively involved in climate action within their respective governments. Overall, these principles are based on the existing assumption that since Finance Ministries oversee such a great variety of policy functions, including fiscal, debt-related, procurement and economic strategy functions – they are important in coordination of climate action and even in leading on climate action within respective governments.

When considering The Coalition along the key dimensions of formality, representation and normativity, CoFMs can be described as:

Informal:
The Coalition is a network organisation that relies on existing operational and human resources of its member organisations with rather informal organisational and consultative structures that change (including through rotation) depending on which member organisation is leading on the task or major report output. Although it has an official Secretariat, the full-time staff numbers are very modest.

Open:
Similarly to NGFS, the Coalition is open to all the willing members and the reach of this network substantially expanded in recent years.

Technical:
The guidelines and principles produced by the Coalition members as well as capacity building work (technical trainings developed and provided by the members to other members) are not binding or prescriptive. They tend to summarise the possible policy interventions that stem from the overall mandate of Finance Ministries but the great variety of how Finance Ministries are set up and operate in different countries makes it impossible to produce international standards or globally applicable guidelines (in contrast to financial regulation and technical work of Central Banks and supervisory agencies).

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What's the EU involvement

The EU is primarily represented through individual Member States while the Commission and the European Investment Bank are institutional partners that provide analytical and advisory work.

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Institute for International Finance (IIF)

IIF is a financial industry association with over 400 members from 60+ countries. Established in 1983 in the aftermath of the Latin American sovereign debt crisis and headquartered in Washington DC with regional offices in Asia and Europe, IIF has been promoting market-relevant research and doing policy advocacy aiming at efficiency, transparency (in terms of risk management) and stability of financial markets globally. IIF membership includes commercial and investment banks, asset managers, sovereign wealth funds, insurance companies, professional services firms, hedge funds, central banks and development banks. In other words, both privately owned financial firms and public institutions/agencies are represented in IIF.

The hybrid nature of representation is linked to the historical origins of the IIF: the internationally exposed banks gathered in 1982 and voiced the need to collectively monitor information on the debtor countries and have an up-to-date view about any issues related to sovereign debts of nation states. With this monitoring and information-gathering function in place, IIF gradually started publishing policy reports since the 1990s, including on issues related to macroeconomic stability. The move of IIF towards explicitly normative work occurred in mid-1990s when it issued a public criticism of the newly created Basel Accord on banks' capital adequacy ratios (McKeen-Edwards, 2010).

IIF's active take on the role of policy advocacy can be also found in its founding documents. According to the by-laws of IIF, its mission is to be the most influential association of financial institutions globally and, as part of its mission, IIF aims to:

- 'Shape regulatory, financial, and economic policy issues of relevance to its Members globally or regionally',
- 'Develop and advance representative views and constructive proposals that influence the public debate on particular policy proposals', and
- 'Work with policymakers, regulators, and multilateral organizations to strengthen the efficiency, transparency, stability and competitiveness of the global financial system' (IIF 2023, 2)[16].

Economic and financial research and analysis still plays the key role in IIF's work, and this research-based intelligence about financial markets and business practices remains a significant benefit for the IIF members.

When considering the IIF along the key dimensions of formality, representation and normativity, IIF can be described as:

Between formal and informal:
The formal organisation structures and workflows co-exist with the informal modes of consultations between IIF staff and IIF members. IIF member organisations have a direct access to economists and policy advisors of IIF and these interactions take place through various formats: from going on a mission (formal) to informal consultations with the IFF staff. Internally, the work of IIF is organised through thematic working groups/committees and the governing structures include a (geographically) rotating Board of Directors, which supervises the Managing Director. Although IIF employs full-time staff, its staffing numbers have been always relatively lean as IIF has been relying on the work of task forces and thematic committees (McKeen-Edwards, 2010).

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Hence, the Institute has formal organisational structures in place that co-exist with less formalised modes of work.

Open:
\Membership is fee-based, fairly open and is based on application. Initially open to banks only, over the years IIF opened its membership to various types of institutions, including non-financial organisations such as insurance firms, law firms, multinational corporations, central banks and other national agencies.

Normative:
The normative function of IIF's advocacy work has further grown over time, particularly during the last two decades. Since 1990s IIF has been advocating for more market-friendly resolutions between key creditors and sovereign debt issuers – this approach contrasted with the IMF-led 'sovereign debt restructuring mechanism' with a statutory framework – and this approach became formally accepted since 2003. Further, while mobilising its transnational network, IIF was directly involved in assisting EU officials in negotiating with the Greek government over the Greek sovereign debt crisis in 2008-2010 (Kalaitzake, 2017).

What's the EU involvement

The IIF has been extensively involved in the European financial policymaking, particularly through acting as the main private broker in Greek sovereign debt crisis while ensuring that market-based mechanism and private creditors' interests were safeguarded (Kalaitzake, 2017).

The policymaking goals of the EU are also at times aligned with the regulatory standards promoted by the IFF – for example, in the case of post-Global Financial Crisis regulatory reforms and cross-border flows, when both the EU and IFF supported international standards on cross-border financial activities (Caglia, 2017).

In other words, it is rather the IIF who is actively shaping standards in international financial industry and related regulation (particularly in banking and insurance sectors), which directly affect/feed into the EU-wide policy making in financial regulatory policy domain. IIF also actively responds to public consultations from EU regulatory agencies, such as the European Banking Authority and the European Commission.

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Implication for the Climate Action

Climate Change – as a grand challenge – has been increasingly recognised by the various policy actors in the area of financial investments, financial regulation and supervision. Financial governance bodies – particularly Central Banks – have identified climate change as one of major factors posing financial stability risks. This risk-based framing of climate change resulted in incorporating climate-related considerations into the areas of financial stability, regulation and supervision. This has a direct implication for global financial flows as they are regulated through emerging climate-related standards (such as disclosure and reporting requirement) and evolving regulatory tools (such as capital adequacy ratios for banks).

Hence, all selected actors in our analysis are related to climate finance and/or climate action in one way or another: from playing an enabling, infrastructure-related role to having an explicit climate-related mandate in their scope of work. Let us consider a few examples in more detail.

For example, the Basel Committee (BCBS) has incorporated climate risks into its core principles of banking supervision.[17] This includes measurement methodologies of climate-related financial risks,[18] principles of supervision of climate-related risks,[19] disclosure standards of climate-related risks[20] and transmission channels of such risks.[21] In the meantime, there are proposals to incorporate climate risks into capital requirements (Dafermos and Nikolaidi 2022), which would go in line with the BCBS guidelines on adequate capital requirements.

In a similar fashion, the Financial Stability Board (FSB) sees climate as the major risk to financial stability and has produced its own Climate Roadmap, which has four pillars: disclosure of climate-related risks, data on climate-related risks, systematic analysis of climate risks and vulnerabilities and the development of appropriate supervisory practices.[22]

Another risk-focused approach to climate action was adopted by the Network for Greening the Financial System (NGFS). NGFS has been set up in order to contribute to the emerging field of green finance and therefore this network organisation and the analytical output of NGFS (reports, standard-setting briefs and policy notes, research funding arm INSPIRE) epitomises current policy advocacy at the intersection of climate agenda and financial regulation and stability more broadly.

Despite categorised as a standard-setting organisation, similar to the Basel Committee, the work of NGFS has a similar ambiguity in its relations with the policy making space: the standards are developed with the view to help policy makers in incorporating climate-related financial risks and develop more accurate financial scenario models and forecasting techniques (including stress tests). At the same time, there is no binding or enforcement mechanism and the adoption of these models is sometimes an issue of 'prestige'.

Another network that was established with the climate action as its core aim is The Coalition of Finance Ministers for Climate Action. Modelled after the design of NGFS, the Coalition was established within the emerging policy advocacy around green

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finance and implications of climate change for macroeconomic and financial policies globally. Therefore, these two expert network organisations – the Coalition together with the NGFS – represent a snapshot of climate action expertise if looked through the prism of macro-economic and financial policy making. The Coalition's work differs from NGFS in that it deals with a way broader portfolio of policy tools and does not limit its analytical work to financial risks but rather promotes a broader, whole-of-government approach to climate action and climate-related expertise.

In the area of private finance, climate features in a number of ways and can be illustrated with the work streams of the Institute for International Finance (IIF). One of the thematic areas of IIF's work is Sustainable Finance, whereby IIF supports market instruments such as 'transition finance' and 'blended finance' as key components of promoting capital markets and sustainable finance. IIF established an internal Sustainable Finance working group and has been actively engaged in promoting disclosure and risk management in ESG markets and carbon markets.[23]

In a somewhat similar, market-focused way, climate challenge is discussed in the context of global remittancesand other types of financial flows. Namely, according to the Global Forum on Remittances, Investment and Development, migrant remittances and diaspora investments can be leveraged by financial institutions and development agencies for climate adaptation in underdeveloped communities (e.g. farmers in the Global South and other rural areas).[24]

In addition, illegal financial flows are often directly related to environmental crimes. FATF has a dedicated work stream in relation of environmental crimes that are typically linked to money laundering, such as illegal wildlife trade.[25]

Overall, existing and newly established transnational networks and coalitions contributed to the rapid development of 'green finance' as a distinct activity within global finance arena. The field of green finance represents policy initiatives, newly designed technical norms (such as risk scenarios and financial stress tests) and standards (such as disclosure and reporting) that aim to make financial systems more 'green' by calculating and disclosing information about climate-related risks. In addition, categories of green economic and financial activities (eg as in the EU Green Taxonomy) have been designed and financial assets have been categorized as 'green' or 'dirty' through the same principle of disclosing climate-related financial risks. These developments once again attest to the particular nature of global financial governance comprising a network of relatively small groups of experts working out globally applicable financial standards and norms.

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Conclusion

We have surveyed and analysed the work of eight selected actors in the field of global financial flows. All these organisations and networks epitomise global financial governance as they fulfil a range of critical governing roles: from providing enabling infrastructure to standard-setting and regulatory as well as explicitly policy agenda-setting roles. The inter-relation between these critical roles and how it changes over time (eg during times of major financial crises or in relation to climate emergencies or international sanctions) could be further explored.

All these organisations and networks have different representations and modes of work, which makes it challenging to navigate both for the EU agencies as well as for individual Member States. The extent of involvement and influence of the EU actors can be also theme-specific and change over time, which represent another potential avenue for further research.

In considering the governance of cross-border financial flows, the EU needs to be especially mindful of the political (and politized) dimensions of what is often treated as a technical issue. To this end, in order to ensure that the infrastructure of cross-border financial flows is compatible with the EU interests and values, EU actors need to remain vigilant in the following areas:

- Maintaining compatibility of the global infrastructure with the EU data privacy frameworks;
- Proactively participating in debates on financial inclusion, with a clear understanding of who benefits and how;
- Further strengthening the EU expert presence and capacity in the Financial Stability Board (FSB) and the Financial Action Task Force (FATF) across the policy making process.

In the area of climate action, financial flows play various roles simultaneously: from enabling to constraining and directly contributing to negative consequences of climate change (owing to the 'double materiality' principle). Hence, governance of financial flows reflects all these dynamics with often ambiguous framings of the climate challenge as such (e.g. investment-based: it is very unclear how migrant remittances can be leveraged to help with climate adaptation). Navigating this policy issue is challenging in terms of coherent and coordinative approach for individual actors, such as the EU bodies or Members States.

The European Union has been promoting 'green finance' in terms of aligning financial flows to the goals of the green transition and EU Member States have been featuring as core members in green finance networks, such as the Network for Greening the Financial System or the Coalition of Finance Ministers for Climate Action. Further, with the EU Sustainable Finance Framework, the EU sees itself as the key player in sustainable finance agenda.

In order for the EU to remain committed to directing financial flows to the low-carbon sectors, the following activities can be considered:

- Identifying and developing categories of 'dirty' economic and financial activities, complementary to the already existing green activities in the EU Green Taxonomy and using active membership in the G20 to promote and establish this as the new norm (for both private and public finance);

- With the Financial Stability Board linked to the G20, the EU can leverage its representation through the European Commission and the European Central Bank in order to promote the 'double materiality' principle that should be incorporated into the financial stability domain;
- While relying on the 'soft law' principle of the Basel Committee, the EU can further take the 'dirty taxonomy' towards the field of banking regulation (capital requirements) and supervision.

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[9] https://www.bis.org/bcbs/charter.htmm, accessed 28 January 2025

[10] https://www.bis.org/publ/bcbs00a.pdf, accessed 28 January 2025

[11] https://www.bis.org/bcbs/charter.htm?m=78 Charter, III.4, accessed 28 January 2025

[12] It might be useful to differentiate between prudential regulation over which responsibilities are shared between the EU and Member States VS banking supervision where the ECB has an 'exclusive competence' through directly supervising systemically important banks within the Banking Union (Viterbo, 2019).

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NAVIGATOR

NAVIGATOR is a 4-year research project set to examine how the EU shall navigate the increasingly complex – and conflict-laden – institutional spaces of global governance to advance a rules-based international order. What factors should be emphasized when considering which institutions to strengthen, which to reform, and which to by-pass when revitalising multilateralism? NAVIGATOR's main objective is to answer these questions and deliver a ready-to-use "search mechanism" and associated pathways of action that the EU and its member states can use as it seeks to strengthen a rules-based international order.

To achieve this, NAVIGATOR comprises a strong, global and inter-disciplinary team of researchers that explores institutional variation on six policy issues – climate change, digitalisation, finance/tax, health, migration and security – to identify what institutional mixes that enables the EU to have optimal impact in a given policy issue.

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