Transition towards green banking: role of financial regulators and financial institutions

Sh. Abduvakhobov *is a teacher*

Samarkand Institute of Economics and Service

shaxzodabduvahobov@mail.ru

Abstract: *This paper provides an overview of green banking as an emerging area of creating competitive advantages and new business opportunities for private sector banks and expanding the mandate of central banks and supervisors to protect the financial system and manage risks of individual financial institutions. Climate change is expected to accelerate and is no longer considered only as an environmental threat because it affects all economic sectors. Furthermore, climate-related risks are causing physical and transitional risks for the financial sector. To mitigate the negative impacts, central banks, supervisors and policymakers started undertaking various green banking initiatives, although the approach taken so far is slightly different between developed and developing countries. In parallel, both private and public financial institutions, individually and collectively, are trying to address the issues on the horizon especially from a risk management perspective*

Keywords: *Environment protection, Green banking financial products, sustainable development, Green Banking, commercial banks.*

The role of banks in financing the transition to a green economy is to unlock private investments, to bridge supply and demand while considering the entire spectrum of risks and to evaluate projects from both an economic and environmental perspective (EBF 2017). Although several banks have demonstrated their leadership in financing green or climate projects, the green portfolio of most banks is still very low.

The International Finance Corporation (IFC) estimated the total green loans and credits of banks in developing countries to the private sector in 2016 to be approximately USD 1.5 trillion, or about 7% of total claims on the private sector in emerging markets (IFC 2018a, 2018b). This outcome results from both a lack of the necessary regulatory and supervisory framework and failure to integrate environment and climate change risks into banks' strategies and risk management systems. Additionally, the current financial framework often makes the required investment difficult to be met due to barriers exist at the sectoral and institutional level (Mazzucato and Semieniuk 2018).

In response to the lack of regulatory and supervisory framework, a growing number of central banks and regulators around the world are becoming aware of their role and potential mandate in addressing climate change and environment risks faced by the banking and financial sector and taking actions (Volz 2017). For example, a group of central banks and supervisors launched the Networking for Greening the Financial System (NGFS) in 2017 to contribute to the analysis and management of climate and environment-related risks in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy (NGFS 2018).

Definition of green banking

There is no universally accepted definition of green banking (Alexander 2016) and it varies widely between countries. However, some researchers and organizations tried to come up with their own definition. The Indian Institute for Development and Research in Banking Technology (IDRBT), which is established by the Reserve Bank of India, defined green banking as an umbrella term referring to practices and guidelines that make banks sustainable in economic, environmental and social dimensions (IDRBT, 2013). Green banking is similar to the concept of ethical banking, which starts with the aim of protecting the environment, as it involves promoting environmental and social responsibility while providing excellent banking services (Bihari 2011).

The State Bank of Pakistan defined green banking as promoting environmentally friendly practices that aid banks and customers in reducing their carbon footprints (SBP 2015). Green banking can be also called social or responsible banking because it covers the social responsibility of banks towards environmental protection, illustrating that social issues often intersect with environmental issues. Social banking is broadly defined as addressing some of the most pressing issues of our time and aiming to have a positive impact on people, the environment and culture by meaning of banking (Kaeufer 2010; Weber and Remer 2011).

Similarly, responsible banking encompasses a strong commitment by banks to sustainable development and addressing corporate social responsibility as an integral part of its business activities. Finally, green banking can be a subset of sustainable banking which tends to capture broader environmental and social dimensions (Dufays 2012). Global Alliance for Banking on Values (GABV) is an independent network of banks and banking cooperatives with a shared mission to use finance to deliver sustainable economic, social and environmental development. GABV has endorsed the principles of sustainable banking which include triple bottom line approach (social, environmental and financial aspects) at the heart of the business model, grounded in communities and transparent and inclusive governance (GABV 2012)

References:

1. Aizawa M, Yang C (2010) Green credit, Green stimulus, Green revolution? China's Mobilization of Banks for Environmental Cleanup. J Environ Dev 2010(19):119–144

2.Alexander K (2016) Greening banking policy. In: Support of the G20 Green Finance Study Group

3.Arezki R, Bolton P, Peters S, Samama F, Stiglitz J (2016) From global savings glut to financing infrastructure: the advent of investment platforms. In: IMF working paper WP/16/18. International Monetary Fund (IMF), Washington DC, 46

4.Bank of Japan (2010). Principal terms and conditions for the fund-provisioning measure to support strengthening the foundation for economic growth conducted through the loan support program.

5.Barclift Z (2011) Too Big to Fail, Too Big Not to Know: Financial Firms and Corporate Social Responsibility. J Civil Rights Econ Dev 25(3):2

6.Barkawi, A and Monnin, P (2015). Greening China's Financial System. International Institute for Sustainable Development, Ch. 7, Winnipeg

7.Basel Committee on Banking Supervision (BCBS) (2016) Guidance on the application of the core principles for effective banking supervision to the regulation and supervision of institutions relevant to financial inclusion. Bank of International Settlements

8.Batten S, Sowerbutts R, Tanaka M (2016) Let's talk about the weather: the impact of climate change on central banks.

9. Technical report, Bank of England Battiston S, Mandel A, Monasterolo I, Schütze F and Visentin G (2017) A climate stress-test of the financial system. Nat ClimChang 7(4):283–288 BCBS (2018) Fifteenth progress report on adoption of the Basel regulatory framework.

10. Bank of International Settlements Beck T, Demirguc-Kunt A (2006) Small and medium-sized enterprises: access to finance as a growth constraint. J Bankng Finance 30(11):2931–2943

11.Bihari S (2011) Green banking-towards socially responsible banking in India. Int J Bus Insights Transform 4(1) October 2010 – March 2011

12.Campiglio E et al (2018) Climate change challenges for central banks and financial regulators. Nat Climate Change Carney M (2015) Breaking the tragedy of the horizon - climate change and financial stability (speech).

13.Bank of England, Speech Christophers B (2017) Climate change and financial instability: risk disclosure and the Problematics of neoliberal governance.

14.Ann Am Assoc Geographers 107(5):1108–1127. https://doi.org/10.1080/24694452.2017.1293502