

PROTOTYPE – FACT SHEET

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WG: 3–PROMOTING SUSTAINABLE BANKING REGULATION
TO CATALYZE PRIVATE CLIMATE INVESTMENTS

ORGANIZATION: STATE BANK OF PAKISTAN

Title

Development of Green & Sustainable Banking Regulatory Framework

Mission statement

Creating enabling environment to motivate banks for green banks and climate investment

Briefly describe your prototype idea

Although being the corporate citizens, the commercial banks are responsible to take measures for reducing their own carbon footprints and the negative climate implications of their clients, this key activity remains blurred due to extra focus on generating profits. The banks need a regulatory push to inculcate green and climate aware strategies even if such activities entail extra operational costs. The availability of a regulatory framework also facilitates objective monitoring of the performance of banks on environmental considerations as well as informs the public regarding the activeness/ inactiveness of the banks/ DFIs. The regulated banks/ DFIs benefit from the green and sustainable banking practices through reduced instances of credit delinquencies of their borrowers and improved public reputation of their responsible operations. The green banking regulations may cover the following three areas:

- 1. Guidelines for environmental risk assessment of new financing and existing portfolio*
- 2. Support green growth by offering adequate financial instruments*
- 3. Implement resource efficiency measures to reduce own carbon footprints of bank operations.*

Target group

Financial institutions under the regulatory ambit of Central banks/banking regulators

Potential partner(s) for implementation

Central banks/banking regulators

Financial institutions

Environmental protection agencies

Key challenges and opportunities

<i>Challenges</i>	<i>Opportunities</i>
<i>Reluctance of regulations by the financial institutions</i>	<i>Regulatory guidance to facilitate better recognition of environmental considerations in banking operations and products/ services and risk mitigation</i>
<i>Capacity of banks/ DFIs to implement the regulatory provisions</i>	<i>Facilitating intervention in the broader industrial sectors through banking channels for better environment</i>
<i>The regulatory strength of central banks to design and implement a coherent set of regulatory framework.</i>	<i>Reducing carbon footprints of a large segment of banking business consuming climate and energy resources</i>

Next steps

Preparing strategic guidance for implementation of regulatory framework

Drafting of model regulatory framework with possible recommendations for its implementation

Devising strategy for capacity building of banks/ DFIs on environmental risk management practices.

Creating understanding of banks/ DFIs on technical aspects of climate related investment products/ services.

Strategy for Capacity building of central banks to develop and implement regulatory framework.