Why Arab banks have decided to take a new, green direction

Najib Saab| The Daily Star 4-10-2018

Arab banks discussing financing sustainable development goals in a regional meeting is in itself a major accomplishment; endorsing green banking is, nonetheless, an unprecedented achievement. The tone ushers a new direction not appreciated before. Simply put, the Arab banking sector is starting to realize that it cannot cater for changing development goals without adopting new vision and innovative approach."Green Banking: The Road to Sustainable Development" was the theme of a forum organized by the Union of Arab Banks in Hurghada, Egypt, with the participation of leaders from the Arab banking sector, central banks and government agencies dealing with development. The meeting endorsed a shift to green banking and adoption of mechanisms to introduce green products as an integral part of banking services, with a focus on small and medium enterprises.

It further called for supporting investments in environmentally friendly technologies, especially in the field of renewable energy. To ensure efficient proper implementation, the banking forum called for the establishment of an independent department for sustainable development in each bank.

It promised to develop training programs to raise awareness and knowledge of green banking measures and practices, as well as establishing a high-level committee to monitor the progress toward shifting to green banking, that can support the achievement of sustainable development goals.

As the effective commitment by banks to financing sustainable development projects requires rules and regulations that are applicable to all, the forum called on central banks to develop regulatory directives that require banks to take into account the objectives of sustainable development.

This will secure fair competition and boost the transformation process, while adopting the best international practices and standards.

First findings of the report of the Arab Forum for Environment and Development on financing sustainable development in Arab countries, to be released in November, were presented to the bankers gathering.

The report confirms that the shift toward green financing is no longer an option for the banking sector, but is the only way to ensure survival in a changing world. Even though this shift is risky and imposes constraints, it can also create new opportunities.

Policy measures to bring down global emissions of greenhouse gases are needed to restrain climate change and curb the risks associated with it.

However, a future where energy is based on alternative sources other than fossil fuels brings the end to many investments and affects valuations.

Since large parts of the economy are based on fossil fuels, consequences of the transition could be dramatic, particularly for economies that are heavily dependent on exporting fossil fuels such as the Arab oil countries.

However, maintaining the status quo entails larger risks to financial stability. Fortunately, programs to diversify economies have been initiated across Arab oil-exporting countries, accompanied by big investments in renewable energy and energy efficiency, as in Saudi Arabia and the United Arab Emirates. Saudi Arabia, for example, has signed a memorandum of understanding with an international private investment fund to build solar plants at an estimated cost of $200 billion.

While bank credit provides a big portion of financing, only a small part can be explicitly classified as "green."

According to the European Banking Federation, "lack of clarity as to what constitutes Green Finance activities and products, such as green loans and green assets, represents an obstacle for classification of green assets as well as for identification of further opportunities for green investing."

The Federation calls for the adoption of minimum standards and a disclosure framework on green finance. The duty of banks should go beyond reducing the environmental and social impacts of their activities and investments, to providing financial solutions for environmentally sound projects and programs.

Banking regulators should work with banks to adopt good practices in the management of human, natural and financial resources. Fostering long-term finance is currently constrained by biased regulatory requirements, challenges to perform sustainability assessment on the long-term, or demand for higher risk and liquidity premiums, thus making projects less viable from an economic and finance perspective.

Some of these constraints can be addressed by targeted regulatory or policy decisions, which provide incentives to long-term sustainability finance.

The clarity and stability of the regulatory environment and public policies are essential for banks to engage in long-term business models and decision-making. This requires that public institutions, both domestic and international, share the risk of some types of financing with commercial banks and private investors.

Until now, most Arab companies, including banks, still combine sustainable development and environment in one department with public relations and marketing. One leading Arab bank presented at the Hurghada meeting ambitious initiatives to utilize solar energy in its branches, together with water-saving devices, sorting of solid waste and promoting car-pooling among its employees. This was accompanied by a large advertising campaign to publicize the bank's commitment to high environmental standards.

Although these are wonderful initiatives that deserve to be commended, it has been noted that financial products of the same bank lack provisions to promote funding for renewable energy and water efficiency projects, and do not provide soft loans for electric or low-emission vehicles.

Commitment to green banking cannot be limited to a public relations exercise, but needs a change of course in the core business of banks, translated in financing projects and introducing consumer banking products which promote sustainability.

The declaration of Arab banks in Hurghada provides a serious start. The AFED conference in November will be an opportunity to advance discussions between commercial financial institutions, development funds and central banks towards adopting a road map for true transition to Arab green banking.

Najib Saab is secretary-general of AFED and editor-in-chief of Al-Bia Wal-Tanmia magazine (www.afedmag.com).