

## GOVERNOR'S SPEECH



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<b>Governor</b>	: Mr. Jameel Ahmad
<b>Title</b>	: Welcome Address by Governor State Bank of Pakistan
<b>Date</b>	: May 03, 2023
<b>Event</b>	: SAARCFINANCE Symposium on Climate Change and Green Financing: Initiatives & Outlook in South Asia
<b>Venue</b>	: Islamabad
<b>Note</b>	: As prepared to deliver in the event

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Honorable Governor, Nepal Rastra Bank, Mr. Maha Prasad Adhikari, Honorable Governor, Central Bank of Sri Lanka, Dr. P. Nandalal Weerasinghe, esteemed representatives from other SAARC member countries, ladies & gentlemen, Assalam o Alaikum and a very good morning!

1. I would like to extend a warm welcome to our guests from SAARC countries, experts from IFC, ADB, and other distinguished guests to the SAARC Finance Symposium on climate change and green finance. This symposium presents an opportunity for all of us to discuss the pressing issues of climate change in general and particularly with reference to our region. We hope that this year's SAARC Finance Symposium will not only focus on how climate change is affecting the economies but will also explore contemporary approaches to tackle this problem. Given climate change as the world's collective action problem, such forums are of vital importance.

### **Ladies & Gentlemen,**

2. Climate change is one of the most important and complicated challenges of our times. The factors contributing towards it are complex and its impacts are far-reaching and wide ranging covering environment, society and economy as a whole. One of the most significant impact of climate change is rising temperatures, which have already increased by 1.1 degree Celsius above preindustrial levels. This rise is directly linked to our global greenhouse gas

emissions that have increased by around 50% since 1990. Consequently, we are witnessing the effects of climate change around the world in the form of extreme weather events. For instance, in 2017, US experienced a catastrophic hurricane in Texas, causing around US \$125 billion damages<sup>1</sup>. The hurricane returned to US in September 2022 again but with more force, knocking out at a quarter of Florida's power.<sup>2</sup> In 2019, France experienced its hottest temperature on record i.e. around 46 degree Celsius<sup>3</sup>. In 2021, Germany and Belgium experienced devastating floods that caused billions of euros in damages<sup>4</sup>. In last year alone, 10 global climate-induced extreme weather events caused more than US \$3 billion worth of each damage. According to the United Nations' estimates climate change will cause economic damages of at least US \$1.2 trillion per year by 2025, which is equivalent to 1.6% of global GDP.

3. If we narrow our focus to South Asian region having around 25% global population, the situation appears more alarming as it is one of the most vulnerable regions to the adverse impacts of climate change. This region frequently faces climate disasters in the form of rising temperatures, changing rainfall patterns, sea level rise, floods, droughts and cyclones. More than half of all South Asians, or 750 million people in eight countries—Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—were affected by one or more climate-related disasters in the last two decades. Floods in Bangladesh & Sri Lanka in 2016-17 which caused billions in damages, the shrinking glaciers of Nepal at much faster rate, significant damages owing to Cyclone storms, in 2019 to infrastructure and agriculture in India and Bangladesh are few examples of recent years.
4. The climate change is affecting crop yields by altering rainfall patterns and increasing the frequency of extreme weather events which has already placed stress on South Asian countries, where the primary sector of employment remains agriculture. According to the World Bank report, climate change is expected to cause a 15% decline in crop yields in this region by 2050, with the largest declines in Bangladesh and Pakistan.
5. Case of Pakistan, **Ladies & Gentlemen**, is no different. Pakistan is consistently ranked among the top 10 countries that is most affected by the adverse impacts of climate change. The total economic cost of Pakistan to climate change is estimated to range from US \$1.3 to US \$1.9 billion, which

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<sup>1</sup> [Report: Preparing for the Next Storm \(2018\)](#)

<sup>2</sup> [Forbes Article](#)

<sup>3</sup> [The Guardian \(2019\)](#)

<sup>4</sup> [Aljazeera \(2021\)](#)

is equivalent to 0.5% to 0.7% of GDP. The floods in 2022 further exposed Pakistan's vulnerability to climate change despite contributing less than 01% of global greenhouse gas emissions. The scale of this disaster is unprecedented where 33 million people were affected and one-third of the country was submerged under water; sectors such as housing, agriculture, livestock, transport and communications suffered the most significant damage. The frequency and intensity of extreme weather events has exposed a significant percentage of Pakistan's population vulnerable to climate risks.

**Ladies & Gentlemen,**

6. There is a growing realization across globe for making a move towards clean investment to minimize the adverse impacts of climate change. Global actions such as Paris Agreement and Sustainable Development Goals have brought countries across the world to join hands to strengthen the global response to combat climate change by transitioning towards a sustainable economy. In light of the Paris Agreement, last year's COP 27 event in Egypt ended with a historic deal to create "loss and damage fund" that will be utilized to pay for some of the loss and damage being inflicted by global warming. This was complemented with the launch of "Early Warnings for All Initiative" aimed at ensuring that every person on earth is protected by disaster forecasting, preparedness and response in next five years. These initiatives are significant as these indicate that nations have started acknowledging the urgency of the situation.
7. It is also encouraging to witness a shift in the financial system towards promoting sustainability considerations. Central banks around the world have undertaken multiple initiatives in the form of guidelines or regulations related to Environmental & Social Risk Management (ESRM), green finance taxonomies, disclosure & reporting of green banking activities, which will ultimately bring us closer to the objective of sustainable financial system. Further, considering the importance of climate-related financial risks, 18 highlevel principles on effective management & supervision of climate-related financial risks, published by Basel Committee on Banking Supervision are also worth reviewing for adoption/adaptation.
8. Against this backdrop, I am happy sharing that State Bank adopted a proactive approach to safeguard the financial sector against climate change and environmental risks by introducing Green Banking Guidelines (GBGs) in 2017. These guidelines set expectations for integrating the consideration of environmental risks and performance into banks' lending activities. The guidelines focus on three (03) key areas that includes (i) integrating

environmental risk into bank's core credit policies, (ii) scaling up green finance, and (iii) reducing banks' own carbon footprint from their business operations by adopting sustainable banking operations (like paperless banking, solarized ATMs/ branches/ offices, efficient use of resources etc.). The guidelines run in parallel to other guidelines such as the Code of Corporate Governance and Corporate Social Responsibility Voluntary Guidelines issued by SECP.

9. Last year in November, we issued Environmental and Social Risk Management (ESRM) Implementation Manual for the financial institutions. This manual is basically an improved version of the Green Banking Guidelines particularly with respect to environmental, social & climatic risk management. In addition to environmental risk, the manual also focuses on social risks such as child labor, forced labor, illegal land acquisition, safety & health-related issues, minimum wage, etc. which are becoming increasingly important for the financial sector. SBP has provided 3 years to banks/DFIs for implementation of the ESRM manual, allowing the banks ample time to establish their environmental & social risk management systems and procedures and to integrate the same within their credit risk management procedures in a gradual and phased manner.
10. We have not restricted ourselves to establishing an enabling regulatory environment but we have moved a step ahead and also introduced developmental initiatives to promote green financing. For instance, SBP issued Financing Scheme for Renewable Energy in 2019. The objective of the scheme is to promote clean energy projects and meet the growing electricity demand through renewable energy in the country. Under this scheme, concessional financing is provided at maximum 6% end-user rate to a range of borrowers, for installation of power generation projects/ solutions of up to 50 MWs through renewable sources under three categories. I am delighted to share that the scheme has made remarkable progress by providing refinance to more than 2,350 projects with a cumulative capacity of almost 1,660 Megawatts (MWs). The total outstanding financing under the scheme is Rs 95 billion.

**Ladies & Gentlemen,**

11. Despite these initiatives, we are not complacent and believe that there is still much work that needs to be done to ensure that sustainable financing is fully ingrained into the financial system. For a developing country like Pakistan, green or sustainable finance may not only support to mitigate the adverse effects of climate change but will also help implement SDGs Agenda 2030.

12. Therefore, as a way forward, State Bank plans to develop policies to promote climate resilient and sustainable financing initiatives for integrating sustainability considerations into the financial system. This will help in providing a comprehensive policy framework to promote sustainable finance and help achieve low-carbon, resilient and inclusive economy.
13. Further, State Bank plans to develop a green or sustainable taxonomy to categorize economic activities that play key role in climate change mitigation and adaptation. The taxonomy will enable the creation of a list of environmentally sustainable economic activities, which will provide appropriate definitions to companies, investors, and policymakers to determine which activities are environmentally sustainable.
14. In addition, State Bank intends to develop guidelines on climate-related financial risk disclosures to enable the banking industry to make informed investment decisions by assessing climate risks and opportunities. To align the same with the international best practices, we may consider adopting the TCFD (Taskforce on Climate-related Financial Disclosures) recommendations by Financial Stability Board, which are widely adopted and applicable to organizations across sectors and jurisdictions. Further, State Bank remains committed to play its facilitative role as well in greening the financial sector through capacity building initiatives and awareness raising sessions. We aim to collaborate with all the relevant stakeholders to build a sustainable financial system that can help to mitigate climate change risk, promote social and economic development, and ensure financial stability.

**Ladies & Gentlemen,**

15. At the end, I would reiterate the urgent need to take practical steps toward building a sustainable and resilient future for all given the world is faced with unprecedented challenges emanating from climate change. This symposium is expected to play a vital role in raising awareness about the implications of climate change on the financial system. I look forward to hearing from our experts and interactive panel discussion towards dealing with this complex issue of climate change.

*Thank you! I wish you productive sessions ahead.*