
Enabling Green Financing and Green Bonds via Credit Enhancement Solutions

(Friday, 8th November 2024)

Esteemed members of the Private Infrastructure Development Group (PIDG)

Respected CEOs and corporate executives

Distinguished guests and Ladies and gentlemen

Assalam-o-Alaikum and good morning!

I am pleased to be here today to attend this forum and welcome the delegation from the Private Infrastructure Development Group to Pakistan. I would like to thank Infrazamin Pakistan for organizing this event on a topic that has significant global implications and where there is an urgent need and great scope for the public and private sector to work together to achieve economic and environmental sustainability.

As we are all aware, climate change is causing extreme weather events that result in loss of lives, livelihoods, and critical infrastructure at an increasing frequency. Unpredictable weather events also pose substantial macroeconomic risks by destroying output of essential agriculture commodities, including food crops. These events also disrupt supply chain linkages, contribute to economic uncertainty, and create additional challenges in achieving sustainable economic growth. It is important for countries to adopt an all-encompassing policy approach to reduce their carbon footprint, and thereby slow down and eventually reverse the harmful impacts of climate change. In this backdrop, countries worldwide are recognizing the urgent need to transition to net-zero by utilizing sustainable economic models.

With that said, I will touch upon two main themes in my speech today. First, I will contextualize Pakistan's vulnerability to climate change with the progress that we have made so far in responding to this challenge, despite our macroeconomic constraints. And second, I will discuss

the role of stakeholders, especially policymakers and the financial services industry, in coming up with viable solutions to this challenge.

Ladies & Gentlemen!

Pakistan is among the 10 countries that are most vulnerable to the adverse impacts of climate change. The recent devastating floods of 2022 were an unfortunate example of our vulnerability to changing climate patterns. Apart from the devastating loss of lives, the floods resulted in damages and economic losses that were estimated to sum around \$30 billion.

This is despite the fact that Pakistan contributes negligibly to global carbon emissions, which are a major driver of climate change. Moreover, in line with the Paris Agreement, Pakistan has committed to unconditionally reduce its overall projected emissions by 15 percent by 2030. We have also committed to reduce emissions by a further 35 percent, conditional on the availability of required external financing. To achieve the emissions target, Pakistan has planned to generate 60 percent of all energy from renewable sources.

In spite of significant macroeconomic challenges over the past couple of years, we have made important strides toward sustainable energy transition. In fact, Pakistan already stands at a comparatively cleaner position relative to other Asian and low and middle income economies in terms of the overall energy mix. Moreover, we are also transitioning away from fossil fuels at a faster rate than many regional economies.

According to global data compiled by the Energy Institute, the share of fossil fuels in Pakistan's overall energy consumption has declined by 4.8 percentage points; from 86.7 percent in 2019 to 81.9 percent in 2023. In the same period, the average share of fossil fuels in low and middle income countries declined by just 0.8 percentage points, from 90.8 percent to 90.0 percent.

Having said this, we know that we need to do a lot more to bring down our collective carbon footprint and achieve the emissions targets. We believe this is important for achieving sustainable growth in the future.

Ladies & Gentlemen!

This brings me to the second theme of my speech, about the roles that the public and private sectors need to play in order to make our country and the economy more resilient to the adverse impacts of climate change. For the government's part, it has been taking a number of measures, largely under the Ministry of Climate Change. The government has developed a comprehensive "Resilient, Recovery, Rehabilitation, and Reconstruction Framework" to ensure a resilient recovery from natural disasters. The government also introduced the National Clean Air Policy to tackle the issue of air pollution. Moreover, under a great example of public-private partnership, multiple foreign firms are providing technical assistance to provincial governments to come up with and implement Clean Air Action Plans. The government is also geared towards increasing the availability and adoption of electric and hybrid vehicles in the country.

The State Bank of Pakistan, being a dynamic regulator, is leading from the front to provide a conducive environment to the financial industry and businesses to achieve our common objective of achieving climate resilience. For this purpose, SBP has taken both direct and indirect measures. Under the direct measures, SBP has introduced refinancing schemes for renewable energy, whereby financing of Rs. 94.7 billion has been disbursed by end June 2024. The scheme has provided financing to more than 4,500 renewable energy projects, having a cumulative energy generation capacity of almost 2,061 MW.

Whereas, under the indirect measures, the SBP aims to improve the capacity of the regulated entities to support uptake of green financing and enhance their resilience. In this regard, SBP issued 'Guidelines on Green Banking' with a view to enabling our regulated entities to recognize

and prepare for managing environmental risks emerging from their businesses and operations. In addition, SBP has issued 'Guidelines for Efficient Water Management Financing' and introduced 'Environment and Social Risk Management' implementation manual. The manual provides a robust framework for our regulated entities to integrate climate-related risks into their risk management practices.

Moreover, in collaboration with the World Bank, SBP is developing a comprehensive Green Taxonomy, which will establish a standardized framework for classification of green and transitional activities. The Taxonomy will provide market players a common reference to identify and assess environmentally and socially sustainable projects and economic activities. A well-defined "Green Taxonomy" will not only facilitate investment in sustainable projects but will also enhance transparency and accountability. I am confident that this will further streamline green product development with the financial sector.

Going forward, we, at SBP, have included risk from climate change as one of the key themes in our Strategic Plan 2023-2028, which identifies a range of goals and policy initiatives that we will take over the next five years to ensure sustainable growth. This theme gels in nicely with the other themes in the Plan, including technological innovation, diversity and inclusion, productivity and competitiveness, and strategic communication.

Ladies and gentlemen!

Next, I would like to discuss the role of the financial sector and private investors, such as the Private Infrastructure Development Group. The financial sector is a critical part of the solution to the challenges posed by climate change. Achieving a greener and climate-resilient economy is an enormous task, which requires a substantial amount of financing and strong scientific and technical capacities. According to the government's estimates, financing Pakistan's energy transition would require billions of dollars of financing every year.

While such a huge amount may appear to be daunting, it also offers vast opportunities to domestic and international financial institutions. These institutions can develop and launch effective and profitable green financing products. At the same time, we must recognize that it is imperative to substantially increase credit allocation to projects that enhance climate resilience and promote environmentally sustainable growth. It is essential that we leverage our financial sector's potential to align with the global shift toward sustainability, thereby contributing to both our national priorities and international commitments.

Let me reiterate the wealth of opportunities that lie ahead for us. The still largely untapped market for green finance represents significant prospects for our financial institutions to finance sustainable projects that can yield long-term benefits for our economy and society.

Encouragingly, ample funding is being offered globally for green projects. Multilateral institutions including, the IMF, World Bank, ADB and Asian Infrastructure Investment Bank, have all expressed their eagerness in facilitating the global energy transition, especially for developing economies. Moreover, socially responsible investors are increasingly seeking avenues to invest in green initiatives. According to Climate Bonds Initiative, the cumulative issuance of green bonds has exceeded \$3.4 trillion until October 2024, which signifies a growing market for these products. For us in Pakistan, it is essential to tap some of these green compliant financing solutions and access the vast pool of available international capital. This is not just an opportunity for economic gains for our economy and financial sector; it is also a chance to align with global sustainability efforts and demonstrate our commitment to responsible banking.

On the home front, there is a need to actively work on designing commercially feasible projects and explore retiring existing fossil fuel-based projects. The private sector will need to wholeheartedly

come on-board for the clean energy agenda. While undertaking capacity expansion or new greenfield projects, the private businesses should also consider environmental sustainability concerns and plan accordingly. This will also allow it to potentially raise external financing from institutional investors looking to finance green projects.

Ladies and gentlemen,

I expect that insights gleaned from today's discussions on international case studies and product development opportunities in the local market, can serve as a blueprint for our collective actions moving forward. I encourage all participating financial institutions to explore the diverse options available for developing and marketing green financial products. This includes not only Green Bonds but also green loans and other instruments tailored to support sustainable projects. It is essential that we remain open to innovation and adaptive to the evolving financial landscape.

While concluding, let me emphasize that by pooling resources and expertise, we can create a mutually beneficial framework for financing sustainable development initiatives. The successful implementation of these models and the resultant green investment will help in addressing the challenges of climate change and stimulating the sustainable economic growth and job creation. Let us embrace this opportunity to work together toward a sustainable financial future for our country and our planet. The steps we take today will shape the landscape of tomorrow, fostering resilience, sustainability, and inclusivity in our economy. Together, we can pave the way for a greener and more prosperous future for Pakistan.

I thank you all for your time.
