

Central Banks: Towards Strengthening Sustainability & Sustainable Finance

البنوك المركزيه: نحو تعزيز الاستدامه والتمويل
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Sustainability & Sustainable Finance
Conference

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UN 4-Steps Towards a More Sustainable Global Economy (under SDG's)

- 1. Diversify Economies
- 2. Stem the Rise of Inequalities
- **3. Make Finance Sustainable: 70 of 135 Central Banks surveyed**
 - have a “direct” or “indirect” sustainability mandates
- 4. Improve Institutions (Governance; Political Stability etc.)

Arab Countries Experience in Sustainable Finance

What did Arab countries do to develop financial sustainability?

In the first place we must recognize that financial sustainability is a departure from traditional finance which focuses on financial return. Finance can become a force for sustainability by embracing economic, social, and environmental challenges.

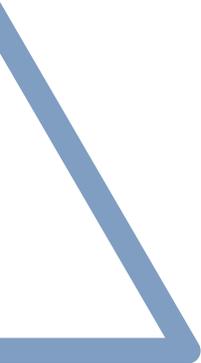
Sustainable development ensures present and future generations have the resources they need, food, water healthcare, etc. without abusing the earth's natural resources.

Several Arab countries have embarked on plans for sustainable development. Examples include:

- 1- Jordan Green Bond Guidelines (Environment, Dec. 2021) and published guidelines to facilitate development of domestic green security market. CBJ mandated sustainability objectives & promotion of green finance.

Arab Countries Experience in Sustainable Finance (2)

- 2- Central Bank of Kuwait: efforts towards sustainability are at the forefront of Vision 2030 Agenda.
- 3- The UAE established the Sustainable Finance Working Group in 2019. Published statement of its work at COP27 and is developing its work as it is hosting COP28 in 2023
- 4- Kingdom of Saudi Arabia's efforts towards sustainability are at the forefront of Vision 2030 Agenda.
- 5- Egypt's is an experience to follow.



What is the role of Central Banks in Sustainable Development

The traditional role of Central Banks (CB's)

The traditional role of a Central Bank as Supplier of Monetary Base leads to the following functions:

- a- Controlling inflation;
- b- Managing the payments system;
- c- Maintaining financial stability;
- d- Ensuring prudential supervision of banks. الاشراف التحوطي

The Changing Role of Central Banks

What is evolving role of the Central Bank?

Should a CB have a role in managing climate change & other aspects of sustainability?

Following the financial crisis starting 2007, central banks' intervention in markets through arrangements such as the "quantitative easing" can be seen as a general withdrawal of governments & a shift in favor of markets.

CB's have accumulated many new responsibilities. And they have become powerful, but they should not become too powerful.

This shift gave CB a greater measure of independence

CB's Independence Should be Prudent

Keynes recognized that the issue was not to maximize CB independence but to conduct efficient monetary policies compatible with democratic values.

So, if the CB is to be independent, it should have a permanent control over the **Monetary Base**, and therefore, be free to use monetary instruments. But it should be **prudent & refrain from using monetary financing of budget deficits**.

Prudential & Green Monetary Policies

The change we are witnessing is that Central Banking is undergoing a revolution.

In the traditional model the G delegates power to the CB to levy taxes by creating money. In the age of climate change, the classical model is out of date and an unnecessary obstacle to achieving environmental objectives:

Central Banks are now implementing Prudential & Green policies.

Greening the Financial System

A political debate is developing to justify the involvement of CB's in environmental issues in the context of today's green transformation. And questions are being asked about CB's becoming involved in social & economic activisms – supporting disadvantaged groups and tackling inequalities.

The Bank of England is leading many CB's to create a Network for Greening the Financial System

Greening the Financial System

Financial markets are universally not “carbon neutral”: they tend to allocate credit in favor of more carbon intensive companies.

Therefore, CB’s must adopt regulations for financial institutions to encourage green industries & carbon neutrality.

But should CB’s have the power to “green” the markets?

CB’s must, at a minimum build the capacity to manage the potential impact of climate change on monetary & financial stability.

The Experience of Egypt: Sustainability Pays Off

- Egypt is at the forefront of regional initiatives not to plan but to implement sustainable development projects. And a system connecting finance to ecology is evolving in Egypt. Sustainability dominates policy & regulatory environments.
- The G targets all public projects to qualify as sustainable by 2030. Therefore, the G's commitment is there.
- And so is that of the Central Bank: The CBE issued binding regulation in October 2022 requiring all banks embed sustainability across their policies and procedures.
- Therefore, the debate over what G does and what CB does is not an issue & sustainable finance is done in tandem.

In Egypt Sustainability Pays Off: Evidence of Public Sector Commitment

- A national framework has been completed setting guides and policies and programs to achieve SDG's. It falls under the Egypt Vision: Sustainable Development Strategy (SDS).
- A committee has also been launched: National Committee for Monitoring the Implementation of Sustainable Development Goals. (Egypt ranks 87/163 countries on SDS indicators).
- At COP27 it was revealed Egypt's Nile Delta is one of the world's three hot spots for "extreme" climate vulnerability
- Projections indicate Egypt may suffer from: sea water level rise; water deficiency; increase in frequency & intensity of extreme weather events

In Egypt Sustainability Pays Off: Public Sector Initiatives

- Green bonds: \$750 million Sovereign Green Bonds issued in 2020. (7 times oversubscribed!)
- Cairo Monorail: the world's longest, carries 45,000/hour
- Electrifying Buses
- Benban Solar Park: 1.8 G-W one of world's largest PV parks
- At COP27 hosted by Egypt last year, G committed \$40 billion to Green hydrogen investments: first hydrogen plant in Africa has started operations in Egypt.

In Egypt Sustainability Pays Off: Private Sector Initiatives

- Commercial International Bank has long been applying a holistic approach to finance beyond the “bottom line” approach to profit making.
- In 2021 CIB issued \$100 million Green Bond with strategic investment by the IFC.
- The Canal Sugar plant which started production in early 2022 is another example of private sector initiatives: an example of sustainable finance and sustainable development

An example of the Evolving System Connecting Finance to the Economy: Egypt's Canal Sugar Project

1.2

Canal Sugar vision strikes multiple goals of United Nations Sustainable Development Program Goals



Canal Sugar: Some Facts

- An integrated Agro-industrial: at 100% max capacity Egypt will have 100% self-sufficiency and self-sustainability in sugar, a basic strategic commodity, in line with the State's vision to achieve sustainable development by 2030
- Provides annual import substitution of \$900 million
- Jobs provided: 1500 direct jobs; 50,000 farmers & indirect workers
- Project reclaiming & cultivating 181,000 acres of land (790 sq. km) producing 2.5 million tons of Sugar Beet p.a. لفت سكري
- The largest Agri-project in Egypt since 1952 with USD 1 Billion investment
- The largest Sugar Beet processing plant with annual production 900k tons of premium white sugar
- Major shareholders Jamal Al Ghurair Group & Al-Ahli Capital (National Bank of Egypt)

In Egypt Sustainability Pays Off: CBE & Sustainable Finance

- With the CBE's Sustainable Finance Binding Regulations (26.10.2022) under Vision 2030 is effectively a **Green Finance Platform**. It commits the banking sector to:
 - 1- Incorporate sustainable finance policies within the bank's credit & investment policies: to be submitted by 1.1.2023.
 - 2- Banks' BOD to ensure implementation of policies & procedures
 - 3- Independent department, the Sustainability & Sustainable Finance Department to be established by April 1, 2023.
 - 4- Periodic Reporting of progress required.
 - 5- To consult an Environmental Expert accredited by the MO Environment to assess risks of large Corporate Clients.

Sustainable Finance: A Roadmap for the Arab Region

1. A recent study suggests (M. Bin Rashed School of Government, *Financing Green Transition in the M.E., 2022*) untapped opportunities remain in all countries. Governments in the Arab region need to introduce tools & frameworks to accelerate finance towards a green & sustainable recover. The financial system must be re-oriented to meet the demands required to achieve the UN SDGs. An additional \$250 billion should be mobilized in the Arab world to achieve these goals.
2. This I gap underscores the importance of changing the structure of the financial system & using financial mechanisms to mobilize both public & private sector finance to sustain investments.

Sustainable Finance: A Roadmap for the Arab Region

3. But first start by developing a system, a Master Plan, with the commitment of the government. G's in this region have an important role in mobilizing finance. G expenditure in the M.E. averages 20% compared to the 17% Global average.
4. Secure the commitment of the Central Bank. Require all banks to incorporate sustainable finance policies across within their investment & credit policies.
5. This plan must connect finance to environment – similar to the one evolving in Egypt.
6. Do sustainable finance in tandem with sustainable development. بالتزامن

Sustainable Finance: A Roadmap for the Arab Region

- 7- Let's call on the CBE to lead the initiative to create a regional network **شبكة** for greening the financial system.
- 8- At a minimum, the network must build the capacity to manage the potential impact of climate change on monetary & financial stability.
- 9- Regional collaboration should deliver stronger outcomes than if
measures were pursued by each country individually.