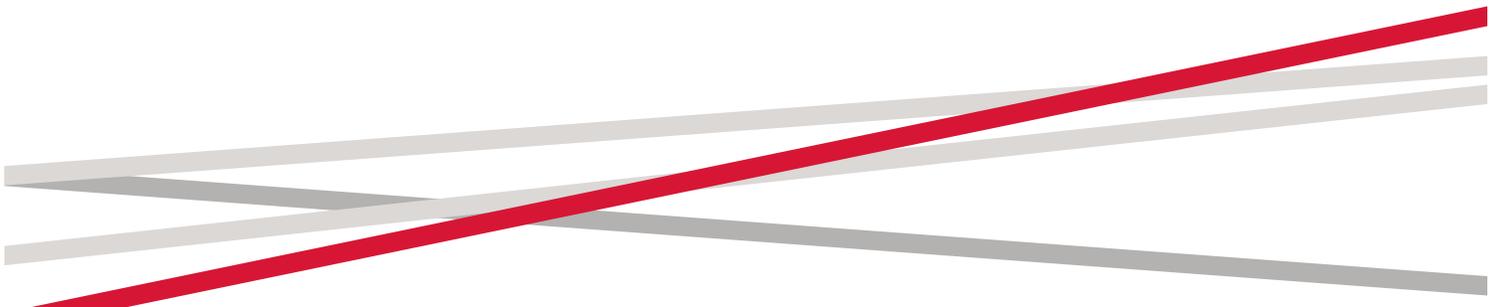


Anastasiya Luzgina, BEROC  
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# Green Banking and Its Development in Belarus

Climate change and environmental protection are challenging both policymakers and society. People are getting increasingly concerned about the careful consumption of water and energy, use of biodegradable products, and biodiversity. In these conditions, more and more companies and industries adopt “green” and “sustainable” standards in their work. The financial sector is also involved in this process. For banks and other financial institutions, green activities require adopting new approaches, strategies, and instruments. This brief discusses green banking with a special focus on the development and challenges of this industry in Belarus. It concludes by providing policy recommendations for green banking development in the country.



## Introduction

Sustainable development is one of the main global challenges, and an important role in facilitating and funding it belongs to green financing. The UN Environment Program defines green financing as “to increase the level of financial flows (from banking, micro-credit, insurance, and investment) from the public, private and non-profit sectors to sustainable development priorities”. Such financing can be provided by banks, financial institutions, nonfinancial private companies, governments, and individuals. The instruments of green financing range from climate, blue, and sustainability bonds to green credits and mortgages. One of the leading roles in the field is played by banks, which will be the focus of the current brief. This brief first offers a general overview of green banking. Then it and a discusses the existing green banking practices and challenges in Belarus. It concludes by providing policy recommendations for the development of the Belarussian green banking sector.

## Green Banking: An Overview

The Indian Bank’s Association defines a green bank as “a normal bank which considers all the social and environmental/ecological factors, with an aim to protect the environment and conserve natural resources”. Moreover, the Finance Initiative of the UN Environment Program states that all green banks’ operations and activities should be consistent with sustainable development goals (Tara, K., Singh S., Kumar, R., 2015).

Considering the importance of green and sustainable development, it is natural to expect increasingly more financial companies and banks to implement eco-friendly instruments and policies. However, there is still much work to be done to ensure that market players consider green aspects in their deals. For example, while the European “green” financial market is growing rapidly, the Green Assets Ratio (GAR, the share of green loans, bonds to total bank’s assets) was only

at 7,9% for the EU banking sector in March 2021 (Huw Jones, May 21, 2021).

A necessary component to speed up banks' uptake of green practices is an appropriate regulatory and supervisory framework. Indeed, as green aspects become part of the traditional banking activities – e.g., international financing, work in foreign markets, participation in financial programs and projects -, there is a need to develop common rules of work, principles, and standards in the green financing sphere. Today, several international initiatives and platforms provide such rules. For example, the *Energy efficient Mortgages Initiative* supports green mortgage development in Europe (*Energy Efficient Mortgages Initiative, n.d.*). The *International Capital Markets Association* acts as a (self-) regulatory organization that forms, implements, and manages principles and standards of green social, or sustainable bonds. One of the famous standards in green finance is the *Equator Principles*, a set of guidelines for project financing evaluation that incorporates social and environmental risks management (*Equator Principles, n.d.*). The *Climate Bonds Initiative* supports the mobilization of the bond market to meet the challenges of climate change (*Climate Bonds Initiative, n.d.*).

At the same time, most national monetary regulators work on legislation and rules of green banking development. The financial sector in general and the banking sector in particular are highly regulated. Financial institutions distribute owned and borrowed funds by providing short- and long-term credits and investing in numerous financial instruments with different levels of risk in national and foreign currencies. Monetary regulators need to control the their activity in order to minimize banks' risks (credit, liquidity, and currency risk, etc.). For this reason, it is essential to have clear guidelines for dealing with new instruments (climate, social, blue, sustainability bonds, green mortgages, etc.), as their characteristics are likely to differ from the traditional ones. For instance, green bonds may have distinct characteristics of issuing and

circulation. Green mortgages can be considered less risky than traditional credits due to more liquid collateral (energy-efficient buildings). There are specific measures that could make green instruments more attractive for banks, for instance by introducing green capital requirements or regulation against greenwashing.

Apart from guidelines, recommendations, and rules, central banks can create additional incentives for developing the green financial market. For example, the Bank of Bangladesh established a preferential lending Fund for projects in spheres such as renewable energy, energy efficiency, alternative energy, and green industry (*Ulrich Volz, March 2018*). Also, the Central Bank of Hungary introduced preferential capital requirements for energy-efficient housing loans (*Liam Jones July 13, 2021*).

Another important aspect of regulation and incentives created by monetary regulators is environmental and climate change risks management. Climate change and the green transition increase the environment-associated financial risks for banks. Banks' financial losses can result from not only storms floods, tsunamis, and temperature increases, but also financial problems of borrowers due to stricter environmental legislation and changes in social and environmental norms and standards. According to the ECB survey, many banks develop sustainable development strategies, but very few include environment-associated financial risks in their risk management. Therefore, the ECB works on creating incentives and regulations for banks in green risks-management. It is expected that bank stress-testing will start in 2022 (*Harrison C., Muething L., 2021*). At the same time, the Bank of Bangladesh, with IFC support, has developed guidelines on social and environmental risk management for the banking sector (*Ulrich Volz, 2018*).

Based on the above mentioned, there is still much to be done to ensure that market players consider

green aspects in their deals. Green banking is still a new thing, but its implementation takes place in many countries, and green finance is an essential element of sustainable economic development.

## Green Banking in Belarus

In this section, we overview the current state and perspectives of green banking development in Belarus. The country takes its first steps in green finance market development. Socio-economic development program of the Republic of Belarus for 2016-2020 has incorporated green projects in spheres such as transport and agriculture, recycling, eco-labelling and eco-certification development, as well as a study of the implementation of green bonds and green investment bank creation (*Ukaz № 466, December 15 2016*). In 2016, the National Plan of Activities on Green Economy Development in the Republic of Belarus till 2020 was adopted. The plan included the development of areas such as organic agriculture, eco-tourism, energy-efficient construction, and smart cities (*CMRB Decree, № 1061, December 21, 2016*). However, none of these projects were introduced with links to green financing and green banking. The National Plan of the Activities of Green Economy Development in the Republic of Belarus till 2025 pays more attention to green finance. In this plan, there is a description of implemented projects in recent years and a list of instruments (green bonds, credits, insurance products), tools (indexes, ratings, databases, etc.), entities and elements of the green *finance ecosystem* (*MNREPRB, 2021*). Still, there is no plan or detailed strategy of special regulation, rules, or framework of green banking development.

In the absence of precise plans from the government, green banking in Belarus began to emerge at the micro-level. Banks started to provide green products for their clients, participate in sustainable initiatives, and implement green management in their work. One of the main incentives to transition towards more



sustainable banking practices comes from the investors' side. In the case of joint investment and lending programs implementation, many foreign partners require that the bank applies modern green standards.

Another incentive to this transition builds on reputational risks and competition. Today, there is a public demand for eco-products, energy-efficient construction, and environmental protection. Banks that consider these issues have a competitive advantage and gain a positive reputation among their clients. Moreover, some commercial banks with foreign capital have to introduce green standards and green management at the request of their parent companies.

A few green initiatives by Belarusian banks are worth mentioning here. The Belinvestbank can be distinguished as one of the brightest examples of green banking in Belarus. The financial institution started transforming into EcoBank – it began to hold green financing transactions in the framework of the Global Trade Financial program (a program by the International Finance Corporation), adopted a new ecological and social strategy, issued a charity-bonus payment card made from recycled plastic, and held activities in ecological spheres (*Belinvestbank, 2020*). The bank plans to issue green bonds, establish green projects accelerator, continue green financing, and build new communications approaches with its clients (*Belinvestbank, 2019a*). Green financing is one of the main lending spheres of the EBRD, which planned to purchase a share of Belinvestbank.

Priorbank is another case of a green banking initiative in Belarus. The bank presented a new type of lending that allows consumers to buy only energy-, water- and heat-efficient products (*Priorbank, 2021*).

The Development Bank of Belarus launched a program of ecological projects financing for small and medium businesses and individual entrepreneurs for preferential interest rates (*DBRB, n.d.*).

As part of the Belarus Sustainable Energy Finance Program (BelSEFF) framework, funding was provided by banks such as MTBank, BelVeb Bank, BPS-Sberbank, and Belgazprombank with EBRD support (*Tarasevich, V., 2014*). Agreement about energy-efficient projects financing between MTBank and Nordic Environment Finance Corporation can be highlighted as one more example of a green initiative (*Aleinikov & Partners, n.d.*). The last but not least example of green activities is the joint project of BNB-Bank and North Ecological Financial Corporation in which they offered loans to private individuals and legal entities for the purchase of hybrid and e-vehicles, as well as for building infrastructure for e-vehicles. (*BNB-Bank, n.d.*).

Some Belarusian banks implement standards of environmental management into practice. For example, the Sustainable Development Report of Raiffeisen Bank International mentions that the Raiffeisen Group plans by 2025 to reduce carbon dioxide emissions by 35% (*Raiffeisen Bank International, 2019*). They also present plans on water savings, reduction of paper document flow and energy consumption. Priorbank is involved in this process as part of the Raiffeisen Group. Similar goals can be found in the Sustainable Development Report of Bank BelVeb. The environmental priorities of the bank are to reduce pollution, restore biodiversity, and increase the efficiency of water, energy, and other resources consumption (*BelVeb, 2019*). In the Social Report of Belarusbank it is mentioned that the bank tries to consider negative environmental effects and ecological factors in their lending-decisions (*Belarusbank, 2020*).

Based on the information above, the conclusion is that Belarusian financial institutions gradually introduce principles of green banking. Most green projects in Belarus are implemented with the support of international financial organizations, parent institutions, or by request from foreign bank partners. Today, Belarusian banks carry out two types of green banking activities. First, they incorporate an environmental perspective in their



everyday activities, not directly related to green finance: for example, by reducing water and electricity consumption and waste, switching to electronic document management, providing green incentives to their employees, etc.. Second, banks integrate an environmental perspective into their financial activities using green instruments, for instance by providing loans to the population and corporate sector based on sustainable finance principles.

At the same time, Belarusian banks do not work with climate-related and environmental risks management. This is not surprising, as, normally, regulators would initiate and incentivize this process, but in Belarus, neither the National Bank nor any other regulator deals with environmental risk management rules for banks. Another challenge is that Belarusian banks do not take part in international green financing initiatives, such as the Equator Principals or the Climate Bond Initiative. Finally, the narrowness of the Belarusian financial market and absence of clear rules and definitions restrict green bond markets and green mortgage development.

## Recommendations

Investment in green projects imposes positive externalities on society that are not necessarily internalized by the market. As reflected in the international practices discussed earlier, support from the government and financial authorities might be necessary both in monetary and regulatory terms. Even if developing countries like Belarus may not have a green transformation on top of their agenda, they will soon be faced with the necessity to adapt to the European Green Deal, at least with respect to their trade with the EU. Hence, they will also need policies that promote and support green finance development.

Based on international experience and national issues of green banking, the following recommendations can be highlighted (*Luzgina A., 2021*):

1. The adoption of supportive regulation/rules of work with green instruments, including green, sustainable and/or sustainability-linked bonds, green mortgages, and green project financing. This regulation can include criteria for identifying green projects and construction, principles of green projects evaluation, rules of green bonds issuing, tax benefits, and/or preferential credit eligibilities. The ResponsAbility Investments Survey confirms the necessity to implement special rules on green lending development in emerging economies. According to the survey, 40% of respondents believe that an affordable regulatory environment is a key element of green loan market development (*ResponsAbility Investments AG, 2017*).
2. The implementation of economic and social incentives for green banking activity popularization. Such incentives can include lower interest rates on green loans, providing tax exemptions for companies and people involved in green projects realization, subsidizing the process of green bonds verification, and holding study activities on green economy and finance. According to ResponsAbility Investments Survey, 60% of respondents agree that special green credit lines of public financial institutions have played an important role in green finance development. At the same time, governments subsidize the process of bonds verification issued by SMEs in Russia (at the stage of adoption), Singapore, and Japan (*Vinogradov E. April 2, 2020*).
3. The creation of an additional section in the Belarusian currency and stock exchange for green corporate and state bonds circulation. Green or sustainable bonds have special characteristics in terms of issuing purposes and listing features that require highlighting them in a separate section.
4. Guiding the development of climate-related and environmental risks management as well as green management rules implementation for all banks. Based on the international



experience, this area of green banking requires incentives from the Government and Central Bank, as it is poorly studied and associated with additional costs for banks. Financial institutions are not sufficiently motivated to implement green risks management principles on their own.

5. Extending the international collaboration in the field of green finance. This activity may include participating in not only international programs on green financing or foreign investments attraction but also international initiatives such as Principles for Responsible Banking, Climate bonds Initiative, Equator Principles, etc..
6. The development of a green banking methodology and (or) strategy/ concept by responsible bodies. The introduction of green banking requires the development of new approaches, definitions, and rules that are within the competence of not only the Central Bank but also the Ministry of Economy (in terms of SMEs support), Ministry of Finance (in terms of funding), Ministry of Agriculture (in terms of the development of bioproducts standards), Ministry of Architecture and Construction (in terms of energy-efficient building definition and indicators), Ministry of Natural Resources and Environmental Protection, etc. An institutional body could coordinate this work by developing a methodology of green banking in discussion with the National Bank, ministries, and other interested parties (NGOs, banks). The association of Belarusian Banks can perform this function as it knows the specifics of banking legislation, can identify the existing obstacles of green banking and other challenges in the field, and is interested in developing the Belarusian banking system in line with current trends.

## Conclusion

Green finance as a whole and green banking in particular will continue to develop. Monetary

regulators are working on green rules and risk management implementation for banks. Financial institutions from different countries are participating in international green initiatives and developing sustainable strategies.

Green banking development is an international process which Belarus cannot ignore. Today, the majority of green activities at the national level are based on the initiative of banks. Contracts with international financial institutions and requirements of parent companies and investors motivate Belarusian banks to implement green instruments and approaches. Traditionally, the banking system works under restricted and highly regulated conditions. Therefore, it is necessary to introduce clear rules of green banking by the government as well as to increase the attractiveness of green financing, including economic and social incentives development.

Otherwise, the existing policy gap in green banking will widen and the opportunities for collaboration between Belarusian banks and foreign financial institutions will diminish. Finally, the absence of green regulation will deteriorate the quality of risk management in the Belarusian banking system compared to the world level.

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## Anastasiya Luzgina

BEROC

luzgina@beroc.by

www.beroc.org

Anastasiya Luzgina (Associate Professor, PhD in Economics) has work experience at the Belarusian State University, the National Bank of the Republic of Belarus and the IMF Resident Representative office in Belarus.

In 2015, Anastasiya took a part in the program for visiting researchers of the Central Bank of Finland. She also participated in Fulbright Visiting Scholar Program (USA) (2018).

Since 2010, she has worked at the Belarusian Economic Research and Outreach Center (BEROC). The main research interests are FinTech, crypto markets, green finance.

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