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CCAMTAC Regional Webinar on “Preparing Financial Sectors for a Green Future. Managing Risks and Securing Sustainable Finance” March 14, 2024

Introduction and Moderation:

Ms. Aliya Uskenbayeva, Economist, IMF CCAMTAC

Presenters:

Mr. Jerome Vacher, Senior Economist, Middle East and Central Asia Department, IMF

Ms. Yevgeniya Korniyenko, Senior Economist, Middle East and Central Asia Department, IMF

Intervention:

Ms. Ksenia Brockmann, Associate Director, Head of Green Financial Systems (GFS) in Central Asia, Caucasus & Turkey, Climate Strategy and Delivery, European Bank for Reconstruction and Development (EBRD)

Middle East and Central Asian (ME&CA) economies are susceptible to extreme weather events (physical risks), while some are more dependent on oil and gas production, and consequently subject to significant transition risks and the potential buildup of stranded assets. Financial sectors in the region are not immune to those risks and significant structural changes. On the other hand, financial sectors can be seen as potential sources of financing for economic agents and entities that will need to implement adaptation and mitigation measures. According to the IMF’s recent departmental paper, policymakers need to prepare financial sectors for the challenges stemming from climate change and implement policies to enhance the resilience of financial sectors to climate change-related risks and facilitate green financing.

In the first part of the presentation, Jerome Vacher started with an overview of the context of the paper which covers both risks for the financial sector and opportunities in climate finance. This presentation focused more on climate finance opportunities, starting with the main trends in green financing in ME&CA. Countries in the region face climate change challenges, including adaptation, mitigation, and transition, and require significant financing by 2030 and beyond. It was pointed out that financing needs for climate mitigation are 8 to 15 times higher than those for climate adaptation. Overall, low-income and fragile states, as well as countries with underdeveloped financial sectors unfortunately face disproportionately higher financing needs, including investments for adaptation. They are also the least prepared, given their weak financial development, low resource endowment, limited fiscal space, and already high debts. Beyond innovative solutions (such as green bonds and sukuks) and the specific roles of Sovereign Wealth Funds in the region, ME&CA’s local financial institutions have a substantial potential to expand in climate finance.



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Given on-the-ground operational knowledge, they are well-positioned to channel funds into specific segments and areas, including those that will require higher energy efficiency. Green finance is an opportunity for banks to diversify their balance sheets, further strengthening their resilience to climate risks and in some oil exporting countries limiting their funding dependence on fossil fuel revenues. Developing capital markets can also play a crucial role in promoting climate finance expansion.

During the second part of the presentation, Yevgeniya Korniyenko outlined policies to enhance the resilience of financial sectors to climate change-related risks and create a green finance ecosystem. Short-term policy priorities in the region should focus on better measuring, understanding, and disclosing climate risk data, developing robust models capable of assessing the impact of climate risk on financial sector institutions, and developing the insurance sector, while in the long run, policymakers are expected to finalize climate strategies (ensuring sustainable green financing and transformation of the strategies into green bankable projects) and create green financial ecosystems (issuing green bonds and loans, enhancing financial regulations and implementing stronger incentives to attract capital providers). This also includes having the proper economic incentives and operating environment, including for energy efficiency, by addressing distortions such as those created by significant energy subsidies and artificially low carbon prices. Governments, central banks, and financial regulators will be essential in creating an enabling market environment that supports a greener economy through private green finance and improving the viability of climate-related investments.

In her intervention, Ksenia Brockmann discussed EBRD's focus on climate-related projects and shared some examples of cooperation with financial institutions in the Caucasus and Central Asia. EBRD's climate-related work includes (i) promoting policy reforms that create an enabling environment for green investment; (ii) channeling concessional finance from its donors to support early movers, who invest in new technologies, and (iii) investments. To support its climate-related financing programs, such as the Green Economy financing facility, EBRD is reliant on its partners in the region – local banking institutions – as they have a broad network of clients, which underlines the importance of financial sector involvement in the climate agenda. The bank also leverages the financial sector to provide financial instruments that are designed to facilitate countries' transition to green technologies and trade of green and sustainable technologies and solutions. As EBRD assists local partner banks in issuing green bonds, banks create taxonomies, apply internal best practices, and attract new investors that effectively develop the market for green financing.

The questions to the speakers covered: (i) uneven investment in adaptation measures to mitigation measures; (ii) sequencing short-term and long-term policy priorities; (iii) the scale of demand for green financing in the region; (iv) profitability of banks engaged in green financing; (v) aligning monetary policy frameworks with environmental sustainability goals, and (vi) expected transitory result of Tajikistan in transition to green financing.