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Lessons for Taiwanese Banks from Green Finance

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Abstract

Humans will inevitably damage the environment and use up natural resources to a certain extent during the process of rapid economic growth, resulting in a decline in environmental quality and causing various kinds of pollution and damage. “Green finance” refers to the simultaneous pursuit of both growth and civilizational progress, infusing finance with concepts like energy conservation and pollution reduction. In contrast to general finance, it further emphasizes the long-term sustainability of human development. The financial industry plays an important role in environmental protection based on sustainable development and social responsibility. Promoters of this kind of finance within the banking industry are called green banks. Green finance protects the environment and society through green banks.

International experience shows that strong governmental support for green policies is the key to industrial and financial development. Green finance is not only a global trend of the future, but a way to enhance national strategic planning and productivity. Since green finance is still in its infancy in Taiwan, in order to help banks understand international experience, this study takes global green trends and green financing as its scope, examing the US and Europe, with relatively developed green finance industries, to further examine green banking developments. Both government-led policy banks and market-oriented private banks are receiving increasing attention for their impact on the environment and society.

Research Findings

1. Green policies can be classified into international conventions and national norms. The former influence policy development of individual countries, and are thereby highly important for global industrial development. Although it is difficult for Taiwan, not a member of the UN, to sign international conventions, it still has the obligation to actively fulfill these requirements. Otherwise, it may be subject to trade sanctions. Its compliance and participation in international actions will contribute to its future national competitiveness.

2. Although green policies vary by country, they have become a global trend. Advanced European and American countries have been formulating various green policies to help upgrade and develop various green industries. Various countries are leading industrial upgrade and transformation through the government, and setting staged objectives for energy conservation, carbon reduction, and environmental protection, with a view towards gradually achieving their green policy goals.

3. Taiwan's lacks natural resources, and policies to develop energy sources (regeneration and conservation) are a priority. Through the Government Procurement Act, the government plays a leading role in incentivizing green industry development. Meanwhile, with reference to the green practices of other advanced countries, it will make these objectives concrete with development standards.

4. Major international green indixes include: the Green Technology Solutions rankings published by the International Institute for Management Development (IMD), the Global Green Economy Index (GGEI) issued by Dual Citizen, and the "Low Carbon and Environmental Goods and Services" (LCEGS) published by the UK Department for Business, Innovation and Skills (BIS). Taiwan ranks somewhere in the middle, indicating that it has some room to go in order to become a competitive green economy.

5. Development of green energy policies in advanced countries is based on a holistic implementation from top to bottom, providing support for energy policies. In addition to increasing production demand and improving technology, green finance policies include subsidies, policy loans, or fiscal policies such as tax relief, and tax offsets (reductions). Industry policies use Feed-in-tariffs (FIT), corporate tax incentives, and Grant Programs. Financing policies, meanwhile, use green banks, loan programs, property-assessed clean energy financing, green loan interest subsidies, loan guarantees, and green bonds. This wide variety of tools helps the industry.

6. International green banking operation models use state operators for policy purposes. The UK Green Investment Bank (GIB) and the German Kreditanstalt für Wiederaufbau (KFW), for instance, were both set up using government funds, and their policy tasks revolve around greenhouse gas emissions, renewable energy, energy efficiency, and environmental protection, providing policy support through debt or equity. GIB emphasizes investment conditions similar to other market schemes, and market remuneration is required in line with project risk. The bank does not provide low-cost financing. In contrast, KFW is divided into different policy objectives, helping industries depending on their financing conditions and preferential policies. Private green banks such as the UK HSBC have mature commercial models and innovative green financing advances. In contrast to mainstream commercial banks, although the Dutch Triodos Bank is not an Equator Principles Financial Institution (EPFI), it still believes that the green concept can still take profits into account, and is worthy of consideration by the banking industry.

7. Taiwan's energy supply is highly dependent upon imports. Saving energy, reducing carbon emissions, increasing energy usage efficiency, and developing green energy production are the only paths to energy security and environmental sustainability. Although banks and the Small & Medium Enterprise Credit Guarantee Fund of Taiwan have subsidized the interest on and guaranteed relevant green energy loans in accordance with the mechanism, and some banks have even further introduced financial products related to green finance, there is still a lack of policy support and investment channels relative to the diverse government support measures in advanced countries and international green finance. Whether in terms of policy or industry, and regardless of the degree of financial linkage, the focus is still on single project financing.

Conclusions

1. The "Greenhouse Gas Reduction and Management Act" has passed, and Taiwan will be ready for developing green finance

Taiwan's Greenhouse Gas Reduction and Management Act stipulates that the government at all levels should encourage R&D, strengthen financial mechanisms to enrich economic vitality, open up benign competition, promote low-carbon green growth, create jobs, and enhance national competitiveness. The law will create great demand for green investment and financing of climate change mitigation and adaptation activities. In order to implement Corporate Social Responsibility (CSR), through government support, banks will gradually pay more attention to the impact of their credit on the environment and society. The supply of green finance will increase, improving environmental value and efficiency, thereby increasing financial reputations – a rare opportunity for Taiwan to develop the sector, and a worthwhile opportunity for industry.

2. Encouraging the financial industry to create green financial services

Green finance has been promoted internationally for more than ten years. The profile of finance in environmental protection is increasing. Many countries have carried out green reforms in finance. Observing overseas development trends: 1. Green finance is being developed through market mechanisms, with private banks as the main driver, instilling green ideas in their financial customers. 2. The government is intervening, incorporating green finance into its policy system, guiding financial institutions to support industry and sustainable development through policy management and financial supervision, creating a good policy environment to stimulate green market financing.

3. A green financial system to support green industry

Based on international experience, the key to green policy success is vigorous policy support. Although the government has been supporting green industry, industrial companies have repeatedly complained about the difficulty in obtaining financing for energy-saving facilities, key technology upgrades, and green energy services from the banking system. The financial system, as it currently stands, is not up to the task of green financing. Its functions are limited, causing great resistance to the promotion of green energy and energy-saving production. The government lacks the ability to implement policies, mainly because of the incompleteness of the green financial system. This study recommends setting up a preliminary contact group for green finance through an inter-ministerial conference, combining the strengths of industry and finance. Green funds can be set up through the Greenhouse Gas Act, which plans appropriate green financing incentives and green credit rating mechanisms to promote the fairness and efficiency of green financing, helping green companies to reduce the capital costs, and promoting green production.

4. Green banking certification mechanisms

A variety of green banking models exist around the world. Outside of green policy banks, Triodos Bank hopes to increase loan transparency and strengthen the intermediary function of traditional banks. Despite its small operational scale, the core concept is widely supported by the European public. The ‘small but beautiful’ business model sets it apart from mainstream commercial banks, becoming another paradigm for green banks. With the current status of Taiwanese financing and banks, special regulations must be set up for green finance, which requires discussion by the legislature and relevant ministries, and research by financial institutions – which may take some time. The government should consider letting the market lead, promoting green bank certification mechanisms and setting relevant green indicators so that those who meet the standards can be certified. It can encourage financial institutions to participate voluntarily, while attracting consumers who recognize the green concept, and enabling industry to work together with the financial industry to focus on the green sector.

5. The government should establish a green financial platform as a bridge between industry and finance

Domestic banks’ understanding of green finance is still at a stage of exploration. Specialized knowledge of green industry and environment and related products is lacking, from international conventions on finance, environment, and society, to green industries, trends related to energy technology, and new technological developments and markets. Relevant inter-industry experience is low. Financial think tanks should systematically collect related international knowledge, green finance information, and green banking trends to help banks and financial industries increase their understanding of green industry and international green finance.

6. Educating, training, or hiring professionals in environment, risk, and green finance

With the international trends of increasing environmental awareness, growing attention to social issues, and the promotion of the Equator Principles, banks are slowly coming to understand the environmental and social impact of their credit underwriting through corporate social responsibility (CSR) implementation, and financial institutions are including sustainable development in their credit criteria. Assessing the environmental and social risks of credit cases however involves environmental studies, green industry, green finance, sociology, ecological conservation, and international law. The Equator Principles include the scale and attributes of the financed project. Judgement of credit risk requires expert analysis and interpretation, and the relationship between CSR and bank risk control may vary by professional field. Strengthened bank employee education is recommended through training by professional institutions. Integrating public information through the green financing platforms mentioned above can strengthen communication between the various sections of the financial industry, promote financial decision-making coordination involving cross-regional environmental issues, and reduce risks.

7. Providing multiple financing channels for green industry through policies supporting green finance product and service innovation

International financial institutions are now providing individuals and businesses with a wide variety of green financial products and services, and developing a wide range of green financial products, and diverse funding channels. Some countries also use financial and taxation policies to supplement market demand, to launch financial products for enterprises, individuals and households. Security market tools are used for project financing of large-scale environmental infrastructure or energy-saving emission reduction projects, providing businesses with environmental-related hedging instruments such as Green Asset-backed Securities (GABS), weather derivatives, and others designed specifically for carbon markets such as carbon funds and carbon asset management. Taiwan, in contrast, lacks such variety. The government should support product and service innovation in the financial industry through policy.