



LYSON LAW GROUP

Advocates & Legal Consultants



CLIMATE RELATED **FINANCIAL RISKS**

**ROLE OF FINANCIAL SECTOR PLAYERS
IN THE MITIGATION OF CLIMATE RELATED
FINANCIAL RISK EXPOSURES AND FAIR
DISCLOSURES.**

Introduction



The Bank of Tanzania the foremost regulator of the Banking and financial sectors in exercise of her regulator mandate; has issued a guideline on climate-related financial risk management and disclosures made under Section 71 of the Banking and Financial Institutions Act,2006.

Banking law in Tanzania plays a crucial role in facilitating green projects by providing regulatory frameworks, financing mechanisms, and compliance guidelines for sustainable investments. In recent times, there has been an increasing intersection between banking law and green projects in Tanzania:

1. Regulatory Framework for Climate-Related (Green) Financing Models in Tanzania

Tanzania's banking laws, primarily overseen by the Bank of Tanzania Act (2006) and the Banking and Financial Institutions Act (2006), establish guidelines for banking operations, including financing initiatives that support environmental sustainability.

The Bank of Tanzania (BoT) Green Finance Guidelines and the Guidelines on Climate-Related Financial Risks Management and Disclosures, 2025 issued by BoT have been used by the bank to promote green finance policies to encourage banks to fund renewable energy, climate-resilient projects, and environmentally sustainable businesses.

Environmental Management Act (2004) mandates financial institutions to consider environmental and social impact assessments (ESIAs) before funding major projects.

The Public-Private Partnership (PPP) Act (2010) greatly supports collaboration between banks and the government in financing large-scale green infrastructure projects.

The guidelines are intended to assist banks and financial institutions in incorporating sound governance and risk management frameworks for climate-related financial risks within their existing risk management setups.

2. Role of Banks in Financing Green Projects

Commercial banks and financial institutions in Tanzania are increasingly integrating environmental and social governance (ESG) considerations into their lending policies. Some of the key aspects of environmental and social governance include:

Green Bonds:

Banks may issue green bonds to raise capital for renewable energy and conservation projects.

Sustainable Lending Practices:

Commercial banks, such as BoA Bank, Tanzania Commercial Bank, Mkombozi Bank, CRDB, NMB, and the like, are developing sustainability-linked loans to fund businesses with eco-friendly practices.

Microfinance for Green Initiatives:

Community banks and microfinance institutions support small-scale renewable energy projects, such as solar power for rural households

3. Role of Banking and Financial Sector Players in Shaping Climate-Related Financial Risks Management in Tanzania.

Lawyers and other players have become the frontline of defense of the climate-related risks management, and among the key ways in which they can influence the discourse is in the following ways:

I. Legal advice, compliance, and disclosure

Lawyers will be very crucial in enacting and enforcing the legal framework and policies for a green transition and sustainable banking practices in Tanzania.

One important way lawyers can help is by providing competent legal advisories to clients while taking into consideration how the latter can achieve their objectives in a way that mitigates the effects of climate change. This includes the identification of any potential risks that may arise from their clients' operations that negatively contribute to the climate crisis.

Another crucial task is helping clients understand their obligations and navigate the new wave of environmental compliance requirements – from emissions standards and sustainable business practices to accurate and transparent climate-related disclosures.

This is particularly relevant when considering that in recent years, the government has set legally binding targets and compliance requirements which will affect most, if not all, businesses.

Comparative to the United Kingdom, almost a third of the UK's largest businesses have pledged to eliminate their contribution to carbon emissions by 2050, and they will be looking to their lawyers to achieve those goals while remaining compliant and competitive.

Lastly, another effective response that law firms can take to help tackle the climate emergency is to engage in pro bono work – more often than not, organizations pushing for a green change are non-profit and/or under-resourced.

II. Driving climate-friendly Policies

Legal professionals have the necessary knowledge and power to influence policy and legislative changes. By actively engaging in advocacy and lobbying to shape environmental and climate-related regulations, they can make a real difference. Their force can be multiplied by collaborating with government organizations, NGOs, and advocacy groups, as they can work towards the implementation of climate-friendly policies and stronger environmental protection with experts in the field. Examples of this include developing new legal frameworks that promote sustainability, such as legal mechanisms for carbon pricing.

By working with governments to build new climate and environmental legislation, legal professionals have a huge part to play in dictating how big and small corporations, as well as individuals, approach environmental matters intending to meet climate change targets.

III. Structuring Sustainable Deals

Legal professionals can help pave the way towards climate crisis mitigation, one contract at a time. After all, lawyers are needed to make deals happen – that can mean anything from the financing of REDD+ and AAR projects and fossil fuel plants to mention the few.

Lawyers can effectuate change through every contract they draft by promoting climate-aligned contracting.

Incorporating climate clauses that promote eco-friendly operations in contracts helps the planet by enabling businesses to take the lead in transitioning to net-zero operations.

Again, this is not only beneficial for tackling the climate emergency but also for businesses to remain competitive in today's market. Furthermore, it allows firms to deliver practical, rapid action and respond to the climate crisis without having to wait for the government to enact laws, thereby taking the lead in a wider societal green transition.

IV. Choosing the Right Clients

While many law firms have long-standing environmental or climate change practices, this isn't necessarily a positive sign indicating the firm is contributing to a green transition – often, those departments assist fossil fuel clients and pollutants with continuing their 'ungreen' business. Law firms are an essential pillar of the fossil fuel industry.

They are the ones advising on and facilitating contracts for new pipelines and refineries, lobbying policymakers, and defending clients for environmental violations and/or crimes.

Besides structuring sustainable deals, legal professionals can go a step further and choose to assist clients who are working towards decarbonization and increased sustainability instead of those who work against it.

While in an ideal fossil fuel-free future, there will be no new oil, gas, and coal projects, it is equally important for firms to choose to help existing fossil fuel businesses transition to greener operations.

These companies contribute a significant portion of the UK's greenhouse gas emissions, and they are not just going to disappear shortly, as we need materials such as gas for the increasing energy demand.

As the increase in atmospheric CO₂ is still not slowing down (but increasing by 3.5 ppm per year), it is crucial that fossil fuel companies don't keep operating in a way that is harmful to the environment, and law firms can assist them in their transition to greener technologies. Addressing emissions at the source should allow us to rapidly and drastically reduce carbon emissions, something we desperately must do if we are to have a chance of reaching net-zero emissions by 2050. Helping these businesses transition to greener practices can also enhance the public's and investors' confidence in them, attracting socially responsible investors and further promoting sustainability in the industry.

V. Climate Litigation

In cases where environmental conflicts arise, legal professionals play a crucial role in determining whether companies will be held accountable for their actions against the environment, including the climate. Lawyers can represent clients in litigation related to environmental damage, pollution, and breaches of environmental regulation, among others.

In one instance, a legal action was brought against Shell by Friends of the Earth and other plaintiffs. In 2019, they filed a lawsuit known as the 'Climate Case' against Shell and won, in what is considered the first time a court has legally required a company to align its policies with the goals of the Paris Agreement.

As a result of this case, companies worldwide are now in a position where they can be held accountable for the climate crisis, and they know their actions can have legal and financial consequences. This is a major driver for corporations to work towards a greener economy.

VI. Spreading awareness to the Public

Lawyers and law firms can position themselves as thought leaders and promote awareness around environmental laws and regulations as well as the importance of ESG and sustainability for businesses to their clients, the general public, and aspiring lawyers.

This can take the form of hosting of seminars, webinars, workshops, and other events as well as the dissemination of their expertise through publications like this one, podcasts and other media. Many firms have also started engaging with law schools to educate students on the legal implications of the climate crisis and the urgent need for mitigation.

VII. Legal scrutiny as a Force for Good

Lawyers' actions can have a positive or negative impact when it comes to climate-related risk management, depending on their approach to it. This fact is increasingly being recognized:

There is growing scrutiny on lawyers and law firms regarding their involvement in the climate crisis, as they are both being criticized for their fossil fuel and environmental degradation enabling practices or, conversely, recognized for their sustainability and climate change mitigation work as sole players or with the clients that they take on board.

4. International Influence and Sustainable Finance Initiatives

Tanzania aligns with global initiatives such as:

U.N. Sustainable Development Goals (SDGs), particularly Goal 13 (Climate Action).

The African Development Bank's Green Growth Strategy encourages financial institutions to invest in climate-smart projects.

Global Green Climate Fund (GCF), which supports green banking initiatives in Tanzania through concessional financing.

5. International Influence and Sustainable Finance Initiatives

Despite progress, challenges abound, and they include:

Limited Awareness and Capacity, especially now that many banks are legally compelled to minimize climate risks exposures through reasonable disclosures.

Regulatory Gaps: These persist in part because banks are proactively to assessing sustainability of business practices of customers and regard it as a core part of their mutual dealings, with continued issuance of regulatory circulars and guidelines by the regulator which remains to take root in Tanzanian banking sector going into the future of the sector.

High Initial Costs for green projects require substantial initial investment, making them risky for traditional lenders.

6. The Future of Green Banking Practices in Tanzania

Policy Reforms at BoT are expected to continue introducing stricter ESG regulations to encourage sustainable lending to boost green investments in Tanzania.

Incentives for Green Investments coupled with tax breaks or subsidies for banks investing in renewable energy will promote such initiatives by giving them the necessary impetus. Equally, therefore, fintechs, digital banking, mobile banking, and fintech solutions could help finance small-scale green projects.

7. Conclusion

The main idea in mitigating financial risks related to climate concerns ultimately boils down to scenario analysis, stress testing, compliance measures, timing, reviews and reviews and reasonable disclosures which all allow for the reinforcement of systems and addressing the evolving needs of stakeholders in the financial sector as a whole.


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