

APPROACHES TO GREEN FINANCE

A comparative study of capital mobilization strategies employed by countries for decarbonization and environmentally sustainable development

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1. INTRODUCTION

- By 2050 climate change will reduce \$7.9 trillion from the Gross World Product (GWP), which is 3% of GWP.
- Over US\$ 2 trillion in annual investment is required to put the world back on track to reach Paris Agreement targets.
- The lack of capital mobilization towards GHG reduction, challenges the purpose of traditional finance and necessitates **Green Finance**.
- Within the largest economies, some countries are a few years ahead of the rest in the development of a robust green finance framework.

2. RESEARCH QUESTION

What are the different approaches employed by the **United States, China, the European Union, and India** to mobilize capital for decarbonization & environmentally sustainable development, and how do they compare?

- Which of these four economies is taking the lead in creating economy-wide green finance strategies?
- Can a framework be created to undertake a comparative study?

3. METHODOLOGY

This study provides a **literature review** of scholarly research, government reports, and non-governmental reports that systematically documents and analyses the green finance strategies of selected economies' governments. Additionally, a **framework is created, showing similarities and differences in the approaches used by the economies.**

FRAMEWORK COMPONENTS

Green Finance Taxonomy ★

Green Financial System ⬠

Green Bonds Standards ▲

Green Fiscal Instruments (GFI) ■

Green Stimulus & Incentives (GSI) ●

A framework with the 5 components shown above are used to analyze the green finance approaches of the four economies



4. RESULTS & DISCUSSION

REPUBLIC OF INDIA ★⬠▲■●

- India **does not have an all-encompassing green finance taxonomy** that defines what sustainable economic activities are.
- Indian public sector **banks have been slow to adopt ESG disclosures** and reporting.
- A fast-growing green bond market exists and a **green bond framework** has been created.
- Government imposes a **coal tax**; a **cap-and-trade system** for most polluting industries
- Green stimulus mainly focused on **promoting solar energy**.

UNITED STATES OF AMERICA ★⬠▲■●

- **No all-encompassing green finance taxonomy.** Lawmakers tried and failed to pass mandatory ESG disclosures legislation.
- No federal standards on greening the financial system.
- **No federal green bond standards** but relies on private sector standards.
- **No carbon tax** federally nor in states; **no federal cap-and-trade system.**
- Green **stimulus aimed at renewable energy sector** and EV subsidies.

PEOPLE'S REPUBLIC OF CHINA ★⬠▲■●

- **No all-encompassing green finance taxonomy** but ESG disclosures are increasingly mandated.
- **Green credit policy** providing concessional rates to green projects and high-interest rates for high emitters.
- Largest green bond issuing country but **green bond standards not internationally accepted.**
- **Environmental tax** levied on pollution; **cap-and-trade pilot project** for energy industry.
- **Phase out of high EV subsidies** planned for 2022; green public procurement policy.

EUROPEAN UNION ★⬠▲■●

- **Comprehensive sustainable finance taxonomy** currently being developed and implemented.
- **Risks from climate change are integrated into the financial system** through the mandates of all 3 European Supervisory Authorities (ESAs).
- The **EU Green Bond Standards are expected to be launched in 2022.**
- An **EU-wide carbon tax** may be introduced in 2021; **economy-wide cap & trade system** exists.
- Multiple green stimulus programs to promote R&D in clean tech and green infrastructure.

Implies existence of green finance component ●
Implies absence of green finance component ○

5. CONCLUSION

To ensure that capital is mobilized towards decarbonizing the global economy, governments around the world need to create an environment that promotes green finance. Hence, it was important to study the green finance strategies employed by the four largest GHG emitting economies in the world. **The EU's approach was found to be the most comprehensive, compared to the other three. A green finance analysis framework was also created, that could be used to compare the strategies employed by any selection of countries.**