

Online Summer Academy for Pluralist Economics

**MAINSTREAM
ECONOMICS**

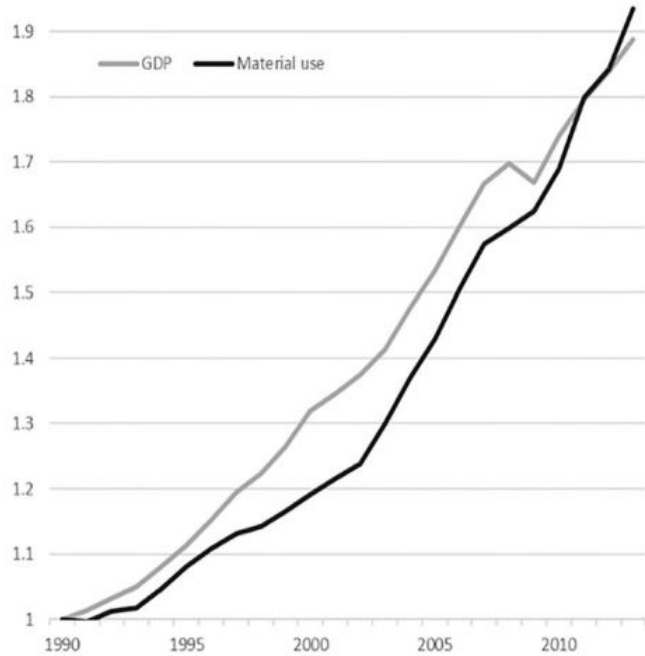
SOLD OUT?

EXPLORING WAYS INTO SUSTAINABLE FUTURES

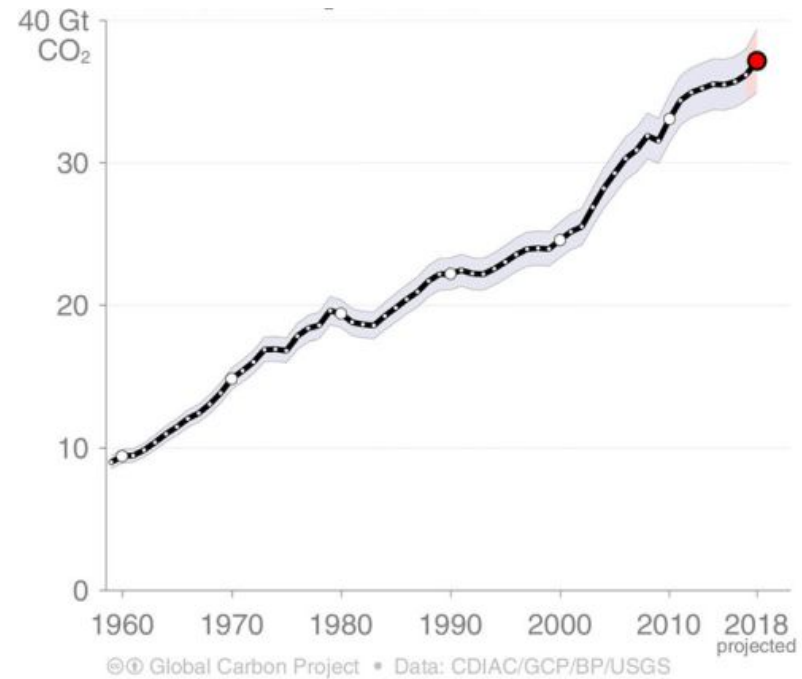


Workshop 11: Sustainable Finance

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Global GDP (grey) and Material Use (black)



Global Fossil CO₂ Emissions

Ethical investment may be defined as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares (stocks). This contrasts with standard depictions of investment decisions, which concentrate solely on financial returns.

'Climate finance' tends to be particularly associated with the United Nations Framework Convention on Climate Change (UNFCCC), which defines it as "local, national or transnational financing, which may be drawn from public, private and alternative sources of financing. Climate finance is critical to both reduce emissions and to allow countries to adapt to the adverse effects and reduce the impacts of climate change".

'Green finance' is generally used to convey something broader than climate finance, in that it addresses other environmental objectives and risks. It tends to be understood with a greater focus on greening broad flows of private investment rather than mainly concerning public and public-leveraged financial flows.

Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG) considerations** when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects. More specifically, **environmental considerations** may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution

Sustainable finance typology	Value		
Sustainable Finance 1.0	Shareholder value		
Sustainable Finance 2.0	Stakeholder value	$T = F + S + E$	Medium term
Sustainable Finance 3.0	Common good value	$S \text{ and } E > F$	Long term

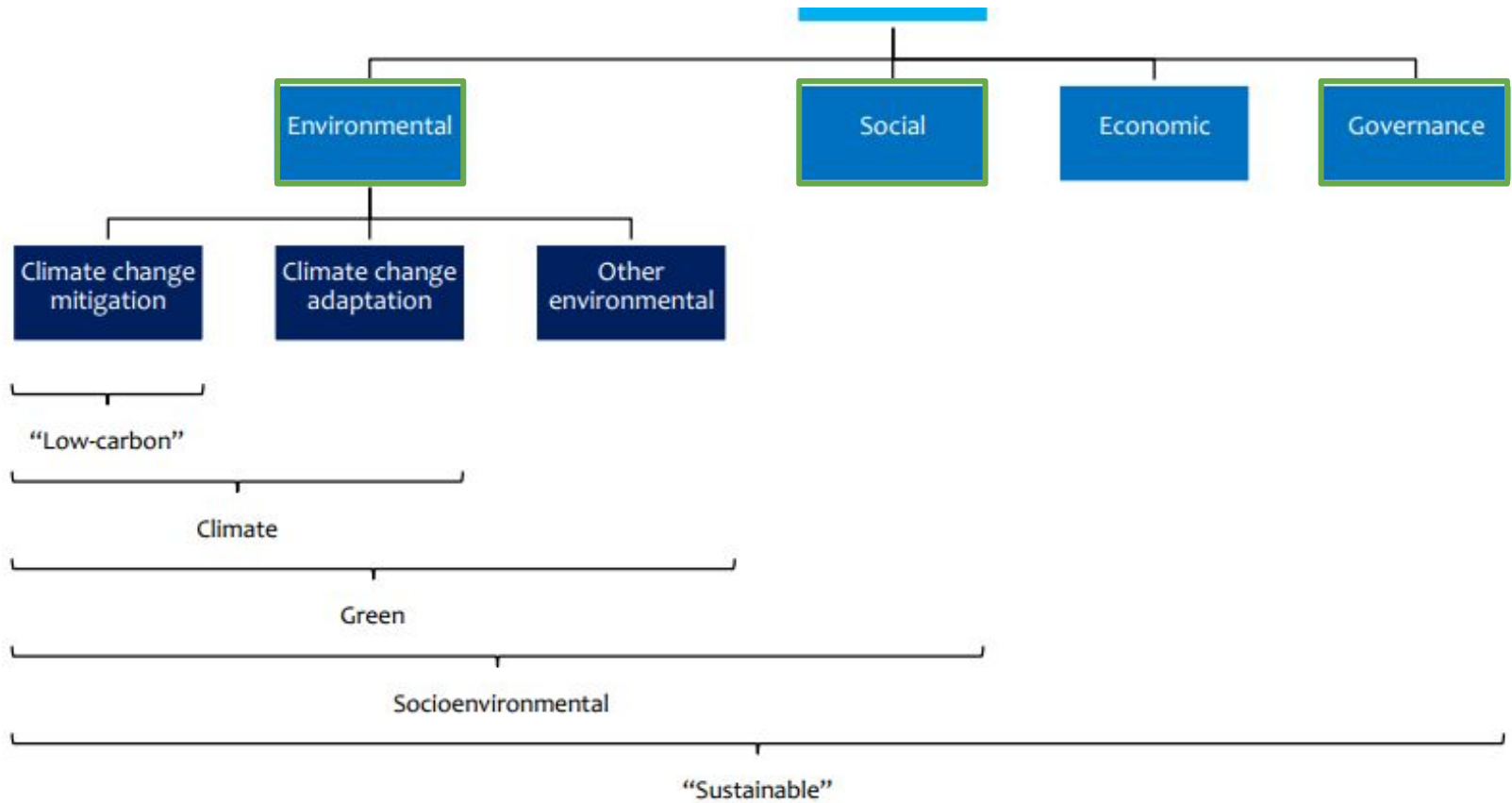
Sustainable Finance

Connecting the activities of actors from the financial system with **sustainability** concerns

Dimensions: **environmental, social** and **governance**

Long-term value creation

Traditional Finance: maximise shareholder value



graph adapted from Definition and Concepts, UNEP Inquiry: Design of a Sustainable Financial System, 2016

Examples of sustainable products

- Green Bonds
 - Earmarked for green projects
 - Certification by Climate Bonds Initiative
 - EU Green Bonds Standard (in progress)
- Sustainability Linked Loans
 - Sustainability performance targets
 - All ESG dimensions

Issuance by region: Europe drives 2019 growth



Note: Latin America includes Mexico.

graph taken from Almeida, M. Global Green Bond State of the Market 2019, Climate Bonds Initiative, 2020

Sustainability Measurement



A little bit of history:

- The ESG ratings system started as a corporation-focused sustainable impact investor system.
- Initially, ESG data were used to encourage corporations to engage more systematically in ESG disclosure.
- More recently, private providers have issued ESG ratings for countries.
- The ESG framework is morphing into a private taxonomy for green/dirty finance.

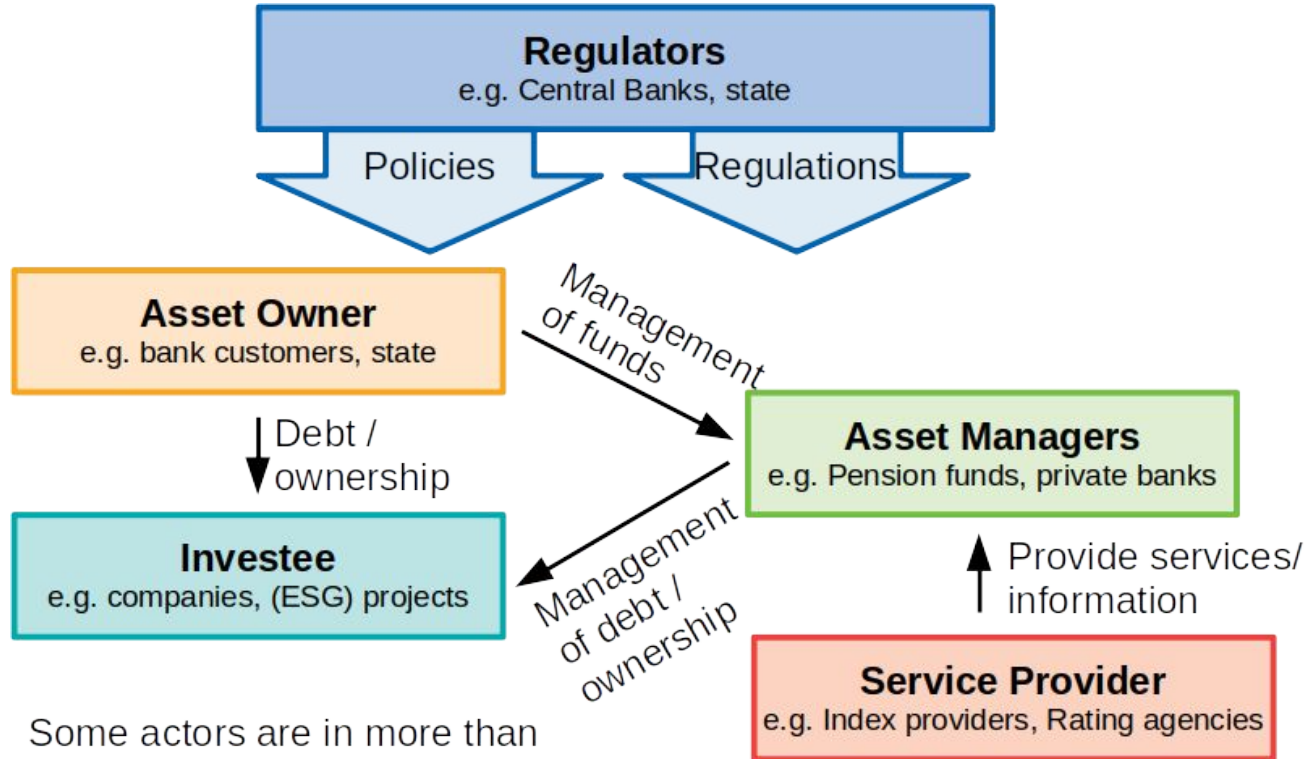
Critiques:

- Non- standardization
- ESG ratings rank companies/countries but do not say much about what they do
- Allow SDG/green washing
- Private capture of ratings

Alternatives:

- Public taxonomies - EU in progress

Clusters of Actors in the Financial System



Some actors are in more than one cluster e.g. the state.

Policy Instruments to push Sustainable Finance

(non-exhaustive)

Policies

- **Fiscal policy**
 - Green (development) banking and de-risking
 - Fiscally financed Green New Deal
 - Subsidies
- **Monetary policy**
 - Asset Purchase Programs
 - Window guidance
- **Information & Education** on Sustainable Finance

Regulation

- **Prudential regulation**
 - Collateral frameworks
 - Capital requirements
 - Green supporting factor
 - Brown penalizing factor
- Rules concerning **Risk management**
 - (Climate) stress testing and scenario analysis
 - ESG risk screening
- **Standardization** of Measurement & proved **Labels**

Critique

Risks vs Impact. Sustainable Finance focuses on the identification and avoidance of risks. This doesn't necessarily translate into reducing negative environmental impact.

Social Rights. Because the focus lies on environmental issues, the social aspect is being neglected quite often. Exploitation of the environment and marginalized people often go hand in hand, thus both are to be considered when talking about sustainability.

Is sustainable finance really possible? Because it is embedded into a capitalistic economy reliant on constant growth, Sustainable Finance is possible only to a certain degree.

Output + Discussion

Essay question (*we are working on*):

"What strategies are there to mitigate and adapt to the climate crisis effectively to achieve the Paris agreement policy goals?"

- including the discussion of public funding & regulations and private investment & incentives for private investors

Discussion: More regulations or more social responsibility?

- Should there be **more public funding & regulations** or **more private investments & incentives for private investors**?
- What are **your experience with sustainable finance** in your country?
- Is sustainable finance **able to face core global problems** about inequality and the climate crisis?

References

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