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Climate Change and Global Finance at the Crossroads: Political Challenges, Political-Economic Dynamics and Sustainable Transformation

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RESEARCH QUESTION AND METHODOLOGY

Why does a large green financing gap persist despite intensified efforts in recent years to mobilize financial resources? What policy instruments and strategies could be used to steer financial flows from unsustainable to sustainable investments?

Based on a mixed-methods approach, that combined document analysis of over 330 key documents and 88 semi-structured interviews with stakeholders working in private financial institutions, the public sector and civil society organisations, the project aimed to propose policies that would enable the financing of the green transition. The focus of the project is on the EU and Germany. The interviews were transcribed and analyzed using inductive content analysis, with the support of a software for qualitative analysis.

KEY FINDINGS: BANKABILITY IS KEY

The analysis shows that the problem is not the lack of capital, but the lack of bankable green projects. Increases in green lending and investments by banks and other financial institutions remain negligible because green assets fail to meet the desired risk-return profiles of investors. In other words, assets of many green companies and projects are considered as 'non-bankable'. Based on our analysis, we propose a classification (figure 1) that considers two criteria: 1) Is the activity green or does it generate high GHG emissions? 2) Is it bankable, not yet bankable, or never bankable?

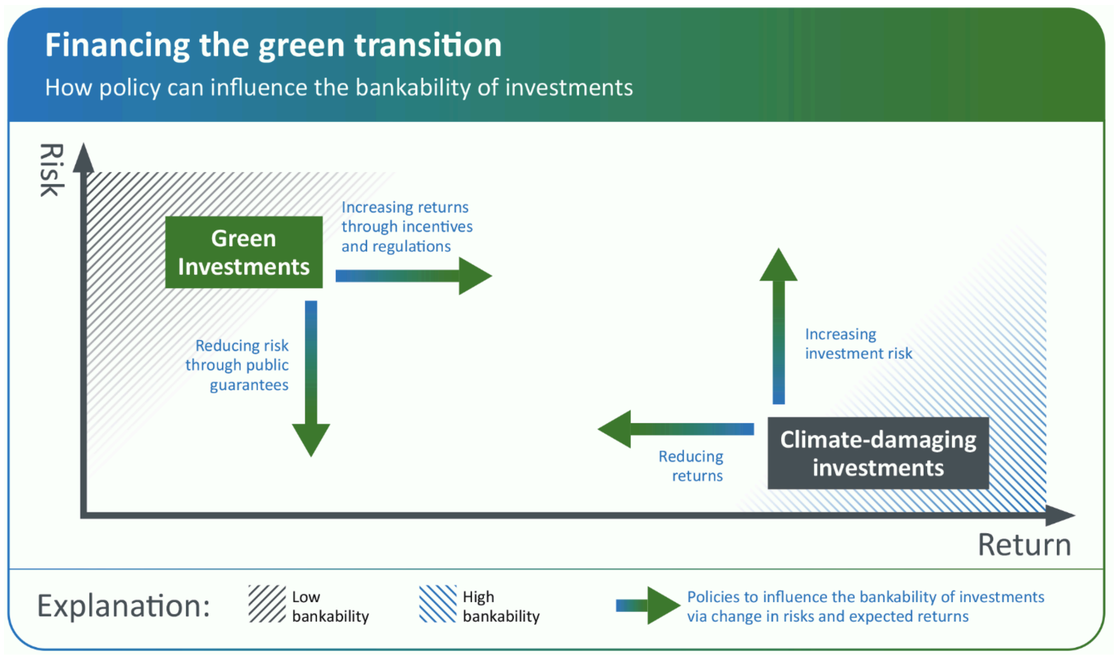
This taxonomy forms the basis for the projects' policy recommendations that can increase the bankability of not-yet bankable companies and projects, decrease the bankability of high-GHG emitting ones, and expand financing for never bankable activities (figure 2).

FIGURE 1: TAXONOMY OF ACTIVITIES

Table: Different types of activities in the green transition according to their bankability

	Green (sustainable)	Harmful to the climate (high GHG emissions)
Bankable	Investments that are already privately financed	Investments that must be phased out such as oil and gas exploration and production
Not yet bankable	Investments that are not yet bankable but can become so with political intervention such as offshore wind farms	Investments that no longer receive private funding
Never bankable	Investments that will never be bankable such as biodiversity conservation	Investments that do not receive private funding

FIGURE 2: POLICIES AND BANKABILITY



POLICY RECOMMENDATIONS

Increase bankability of not-yet bankable companies and projects:

1. Creation of green targeted longer-term refinancing operations (TLTROs)
2. Expansion of financial guarantees
3. Strengthening the EIB's risk-taking capacity
4. Purchase of EIB green bonds by the ECB
5. Setting minimum quotas for green loans

Decrease bankability of high-GHG emitting companies and projects:

1. Cut carbon capital mobility: introduce "Know Your CO2" principles (KYCO2) and comprehensive emissions reporting requirements
2. Incorporation of higher capital requirements into microprudential banking and NBFI regulations to address high-GHG emitting activities
3. Introduction of climate-related maximum exposure limits and systemic risk buffers into macroprudential banking and NBFI regulations
4. Integration of mandatory transition plans into macroprudential supervision
5. Exclusion of high GHG-emitting assets from ECB's collateral framework
6. Exclusion of high GHG-emitting assets securitization

Finance never bankable activities:

1. Establishment of a European Climate Fund
2. Establishment of a EU Green Golden Rule

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