

A Contemporary Approach Congenial To The Environmentalism: Green Finance

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Abstract: It is a noteworthy fact that the environmental problems dramatically came into view and discussed as of the 1960s. It can be asserted that the sensitivity toward environment was raised even more thanks to the United Nations Conference on the Human Environment in 1972. In the 1970s, by virtue of the environmental awareness which shaped the public opinion and along with the common belief that the businesses were primarily responsible for the environmental problems, companies started to feel pressure. Even though the businesses were reluctant at the outset, they eventually comprehended the importance of the environment and they themselves turned to express sensitivity toward this topic. Getting adapted to this development on the issue of environmentalism is inevitable for the finance sector which is tremendously dynamic and flexible. Green finance as a concept which gains importance particularly in the last two decades is a quite popular theme. In this study, efforts will be made to present information on the concept of green finance and green finance products.

Key Words: Green Finance, Green Finance Products, Sustainable Finance

JEL Classification: G10, G12, G15

Çevrecilikle Uyumlu Çağdaş Bir Finansal Yaklaşım: Yeşil Finans

Özet: 1960'lı yıllardan itibaren, çevresel problemlerin çarpıcı bir biçimde gün yüzüne çıkarak tartışılmaya başlandığı bir vakıadır. 1972 yılındaki Birleşmiş Milletler İnsan Çevresi Konferansı sayesinde çevreye karşı duyarlılığın daha da arttığı söylenebilir. 1970'li yıllarla birlikte kamuoyunda meydana gelen çevre bilinci ve çevre sorunlarının müsebbibinin işletmeler olduğu şeklindeki yaygın inanç, şirketler üzerinde bir baskı oluşturmaya başlamıştır. İşletmeler önceleri gönülsüz olsalar da zamanla çevrenin önemini idrak etmişler ve kendiliğinden bu konuya duyarlılık gösterir hale gelmişlerdir. Son derece dinamik ve esnek bir özelliğe sahip olan finans sektörünün de çevrecilik konusundaki bu gelişime ayak uydurması kaçınılmazdır. Özellikle son 20 yılda önem kazanan bir kavram olarak yeşil finansman oldukça popüler bir konudur. Bu çalışmada yeşil finans kavramı ve yeşil finans ürünleri hakkında bilgi verilmeye çalışılacaktır.

Anahtar Kelimeler: Yeşil Finans, Yeşil Finans Ürünleri, Sürdürülebilir Finans

JEL Kodları: G10, G12, G15

1. INTRODUCTION

It is observed that, by virtue of the organized and high-pitched activities which ecologist civilian movements emerging for the last three to four decades with high bourgeois sensitivity to the environment and strong aspirations to conserve the nature undertook in cooperation with the local people who preserved their own living spaces, environmentalism movement was strengthened, and, under the name of the green movement, even achieved in becoming the partner of the ruling political power in certain European countries.

As per the immortal saying of Hayek, the famous economist who is the representative of the Austrian school, "Economics is the result of human actions, not of human design." Naturally, economics and, as a sub-branch of the economics, finance cannot remain indifferent to this environmentalist movement. As a matter of fact, the concept of green finance which emerges as one of the trendiest movements of the last years still stays popular.

The aim of this study is to provide general information on the concept of green finance, which is an innovative and environmentally sensitive approach, and green finance products. In this sense, informing the readers about green credits, green stock certificates and index funds, green cards, green project financing, green indices, carbon credits, green securitization and green bonds as the primary green finance products besides green economy and the concept of green finance is aimed.

2. GREEN ECONOMICS

Green economics is, in its simplest definition, the economic understanding which (1) aims to minimize human beings' destructive interventions in the nature and hence to ensure the continuity of the vivacious life and human civilization on the world, (2) rejects the dogmatism of economic growth and development and (3) is based on production & consumption relations that are earth-friendly, in harmony with the nature and at humanly scales rather than gigantic proportions in the context of

the understanding that “the small is beautiful.” (Şahin, 2012:24). Green economics is the economic order which contributes to the growth, social progress and the management of environment (Mathai & Parayil, 2012:52). Green economics can also be defined as an approach which lights the way for transformations which will assure the sustainability of life in terms of its ecological, societal and economic aspects (Aşıcı, 2012:55). As per another definition, green economics is described as an approach which heralds an equal and just life while, at the same time, reducing the environmental risks. According to the green economics, social and environmental needs precede the material well-being. Green economics which gives precedence to the prosperity in qualitative terms advocates an approach which is not in favor of economic growth but contraction in the trade-off which is alleged by the mainstream economics to exist between growth and environment. Thus, it offers an approach which is critical of the mainstream economics and its growth theory setting the economic growth as the priority (Demirtaş, 2017:109).

3. GREEN FINANCE

Green finance is the finance extended under favorable conditions by financial institutions for the implementation of projects and the use of products which are beneficial to the environment, nature-friendly or less detrimental to the nature. Here, the customers are encouraged to use ‘green’ financial products thanks to low banking transaction costs, low interest rates, donations to environmentalist institutions and so on (Kuloğlu & Öncel, 2015:3). Green finance is a type of finance which simultaneously pursues the goals of developing financial industry, creating a flourishing environment and promoting economic growth (Noh, 2018).

4. LITERATURE REVIEW

It can be conveniently asserted that plenty of academic studies are not devoted to the topic of green finance as it is a quite novel financial approach. Even if a small number of studies address this area, there are certain studies on this topic both in Turkey and abroad. Studies by Marzio (2007), Bahl (2012), Ahmad et al. (2013), Kapoor et al. (2016), Joshi & Shah (2017) and Nator (2017) can be given as primary examples of the studies in the area abroad whilst studies by Güler & Tufan (2015), Gürsoy (2016), Kandır & Yakar (2017), Keleş (2018), Ağırman & Osman (2019) and Ak Bingül & Türk

(2019) can be listed as academic studies in Turkey in the area.

5. GREEN FINANCE PRODUCTS

5.1. Green Loans

Under favorable conditions, banks extend mortgage loans to environmentalist housing and commercial investment projects which generate their own energy. They are called as Green Home or Commercial Building Mortgage. Loans extended by banks under favorable conditions is not limited solely to supporting the construction of housing units and commercial buildings, but also green automobile loans were offered for financing the sales of electric or hybrid cars designed for the purpose of reducing CO₂ emissions which are among the reasons for the emergence of green finance. Besides, a part of returns obtained from certain financial instruments are assigned for purposes such as conserving the nature, creating a green environment, planting trees and protecting the endangered species. Credit cards and panda bonds can be given as examples (Yılmaz, 2019:145).

5.2. Stock Certificates and Index Funds

Certain investors prefer to invest in the stocks of companies which are open to public and, along with their institutional policies, conduct activities in support of the clean energy, energy efficiency and low carbon economy. However, with a view to diversifying their investment portfolios, such investors may generally be reluctant to concentrate their investments on a single company. Index funds which are created in this respect are an investment instrument of choice. These investment instruments which are called as clean index or green index in international markets are used over a broad geography and cover a wide array of technologies/activities. The first index in relation to green stocks and shares is the Luxembourg Green Index (LGX) launched in 2016 by the Luxembourg Stock Exchange (Turguttopbaş, 2020:274).

5.3. Green Cards

Credit card companies present options which allow the card holder to make donations to the civil society organizations in each transaction (Noh, 2018).

5.4. Green Project Finance

Banks can provide services alone or in teams in projects intended for the financing of large-scale renewable energy resources.

5.5. Green Indices

Banks developed indices which took into consideration the future environmental opportunities and threats. For instance, Merrill Lynch developed an energy efficiency index. In this index, the energy efficiency which is focused on energy savings and the management of demand side is measured. Another index is Borsa Istanbul (Stock Exchange Istanbul/BIST) Sustainability Index.

5.6. Carbon Credits

Through the European Union Emission Trading Scheme, carbon restrictions were imposed on 12,000 industrial zones across Europe. To facilitate that their customers abide by the restrictions, the banks extend loans which will meet the finance needs.

5.7. Green Securitization

Different environmental securitization techniques began to emerge. Banks assume the role of underwriter/consultant in the context of public offerings by clean technology providers, firms developing environmental goods and services and carbon credit developers. Green and sustainable bonds are an example of these financial products (Salihoğlu, 2019:287).

5.8. Green Bonds

Green bond is a fixed-income debt security which is offered to investors interested in investing in projects which provide environmental benefits. Green bonds have the same characteristics regarding return, interest and value as the other bonds do. In practice, they are called green bonds. They were issued for the first time by the European Investment Bank in 2007 (ECLAC, 2017:5).

Green bonds are debt instruments which are issued in compliance with four principles of green bonds by the private sector, public sector or multilateral institutions for the purpose of financing projects which are friendly to environment and climate (ICMA, 2017:2). Chiang, 2017:7). In this definition, two basic properties of green bonds come to the forefront. The first is that they are issued for the purpose of providing financial resources essential to the financing of green projects whilst the second is

that they are issued in compliance with four principles of green bonds (Özkan, 2019:73).

6. CONCLUSION

Green economics covers the renewable energy, energy-efficient buildings, industry and transportation, public transport, recycling and waste management, sustainable agriculture and forestation and environmental service activities which protect or raise the quality of environment. Green economics which is a sub-branch of the green economics is one of the most significant approaches of the last years. Several countries tend to prefer renewable energy resources with a view to meeting the increasing energy needs and cutting down the damage inflicted on the environment by fossil fuels. Notwithstanding the positive aspects of the renewable energy, the share of the renewable energy in the world energy production is quite low. One of the most crucial reasons for the low share of renewable energy resources in the world energy production is the inadequacy of financial resources necessary for renewable energy investments. There are various finance methods to be used in the finance of renewable energy resources. It is considered that the financial problems on this issue will be overcome particularly by means of green finance products referred to in this study.

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