Greening finance for the low-carbon transition

Prof. Daniela Gabor (UWE Bristol)

Investments of 5-7% GDP per year to 2050

Climate Capital Climate change + Add to myFT

Carney-led finance coalition has up to $130tn funding committed to hitting net zero

Ex-BoE governor rallies capital to tackle climate change but fossil fuels remain a problem

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Owen Walker in London and **Camilla Hodgson** in Glasgow NOVEMBER 3 2021

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COP26 @COP26 · Oct 25

📢 NEWS: The #COP26 Presidency has released the $100bn Delivery Plan, led by 🇩🇪 🇨🇦

The plan, endorsed by developed countries, states how and when they will deliver on the goal to mobilise $100bn per year in climate finance.

Read the plan:
👉 ukcop26.org/wp-content/upl...

Kate Aronoff @Ka... · Nov 3 •••

Kerry on the $130tn **Gfanz** announcement today: "Blend the finance, de-risk the investment, and create the capacity to have bankable deals. That's doable for water, it's doable for electricity it's doable for transportation."

ft.com

Carney-led finance
up to $130tn fundi

On #ClimateFinance, BlackRock's Fink puts it plainly in @nytopinion: Investments in low-carbon projects in developing countries must total more than $1T/year—more than 6x the current rate—which must be catalyzed by $100B/yr in grants from rich countries.

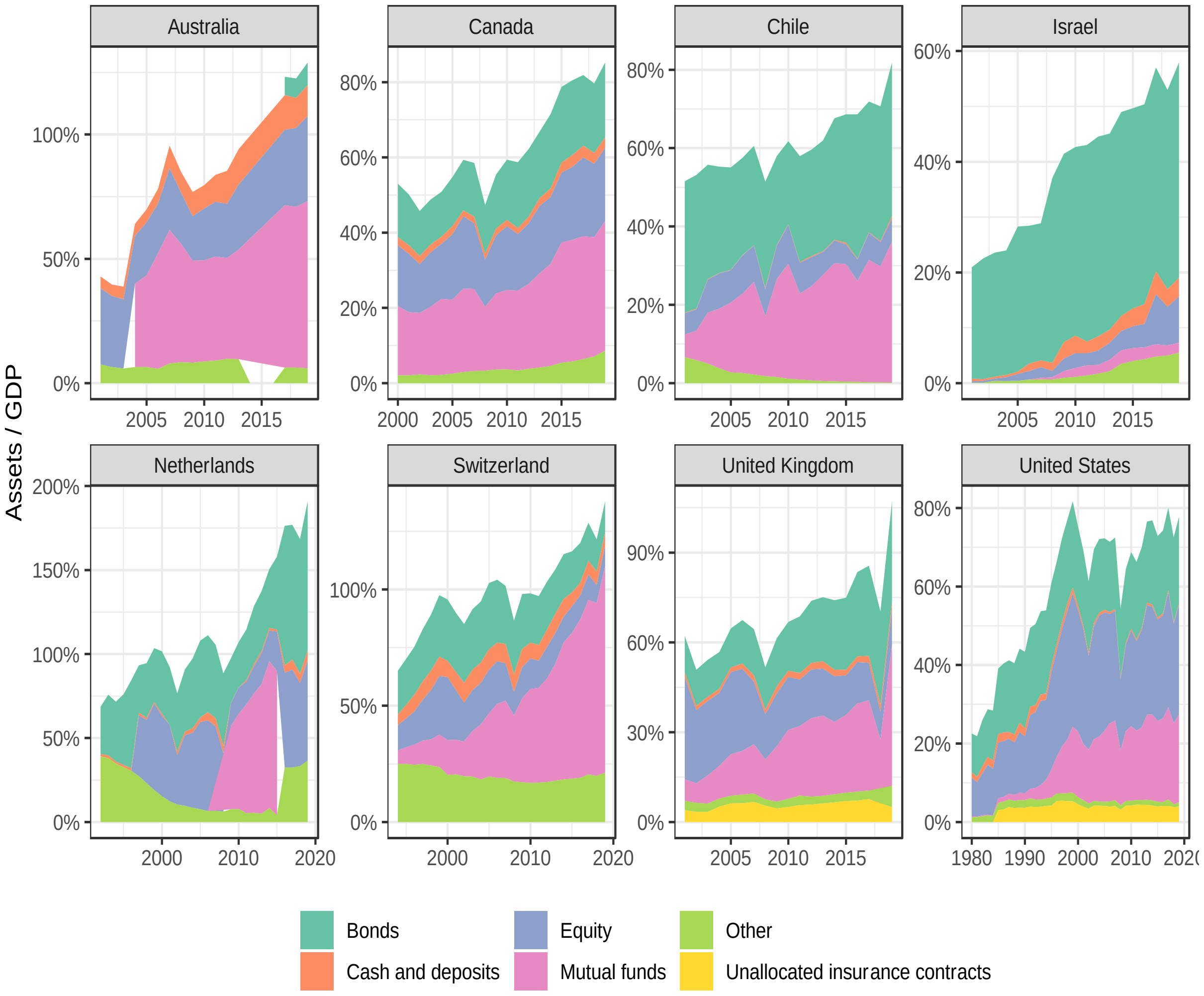
nytimes.com

Opinion | Rich Countries Must Bear the Cost if We Can Ever Hope to Achieve a ...

Rich countries must bear the cost if we can ever hope to achieve a net-zero world.

Institutional capital - portfolio glut

Pension fund assets and asset allocation, % of GDP

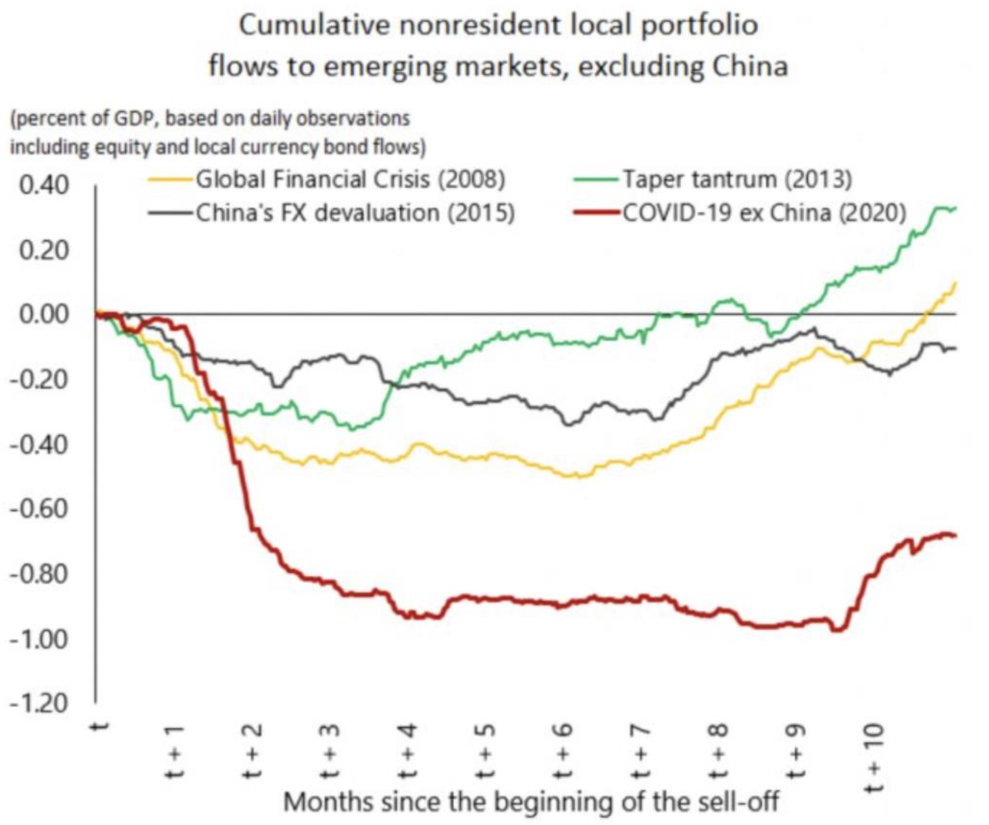


Data: OECD

Source> Braun & Gabor (2021)

The COVID-19 sell-off and the recent recovery

Emerging economies saw more than $100 billion of local currency portfolio outflows after the onset of the pandemic, but have recovered sharply lately.



Sources: Bloomberg, Haver Analytics, IIF.

Green macro-financial regimes: institutional modes of creation and access to green financial assets, including money

Regime	Coordination mechanism of investment	Role of… financial regulation	fiscal policy	monetary policy	Degree of nationalization
Carbon shock therapy	Prices + competion	Liberalize	Fiscal discipline & monetary dominance		–
Small green derisking state **(Wall Street Consensus)**	Prices + derisking	Private ESG taxonomy & voluntary balance-sheet decarbonization	Dirty/green asset de-risking (soft credit guidance) Fiscal discipline & monetary dominance		+ stranding assets
Big green state	Prices + indicative planning	Public ESG taxonomy & mandatory balance-sheet decarbonization Capital controls	Green public investment Green monetary policy (quantitative allocation) Monetary-fiscal coordination		+ parts of the financial sector Re/nationalisation of green credit

Source: Braun & Gabor (2021)

Shock therapy in Washington Consensus

- Transition to market economy: structural transformation via subjecting state-owned companies to disciplining hand of price signals

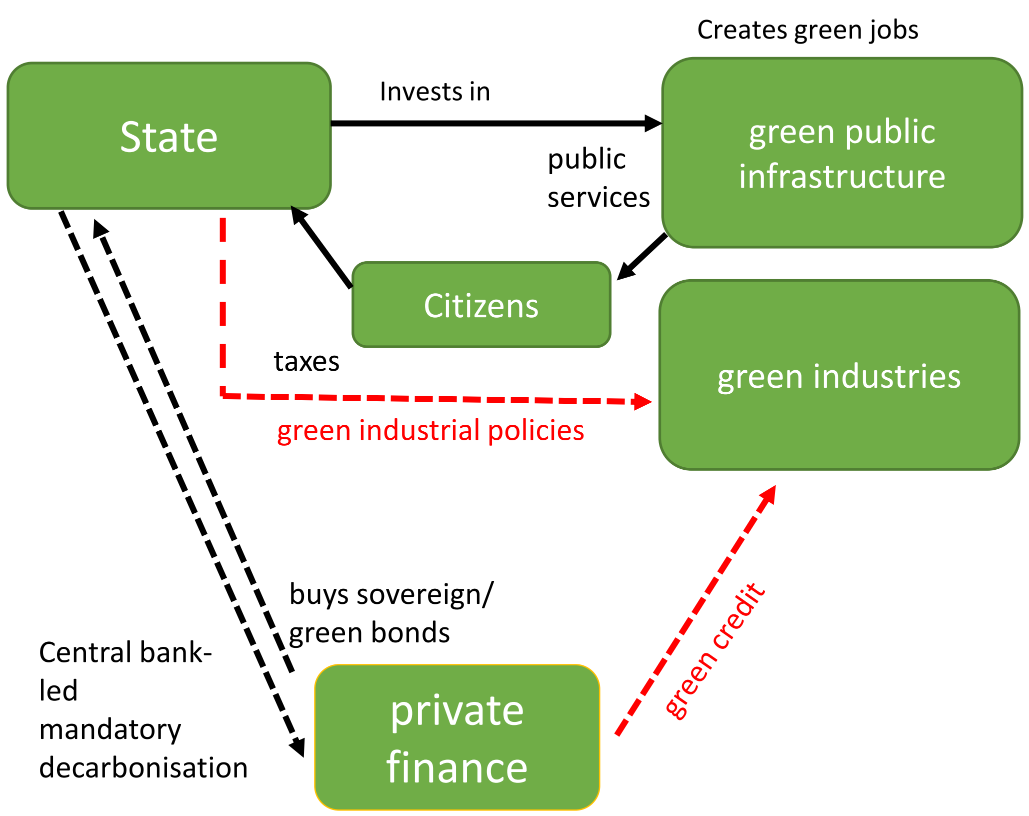
- How: increase (liberalise) prices at which SOEs access imported/ intermediary inputs & increase the price of credit via monetary austerity (Gabor 2011, Weber 2021)

- Politics: imposed via IFIs (WB/IMF) under BOP crises, in local coalitions with central bank and against political opposition/contestation (job losses)

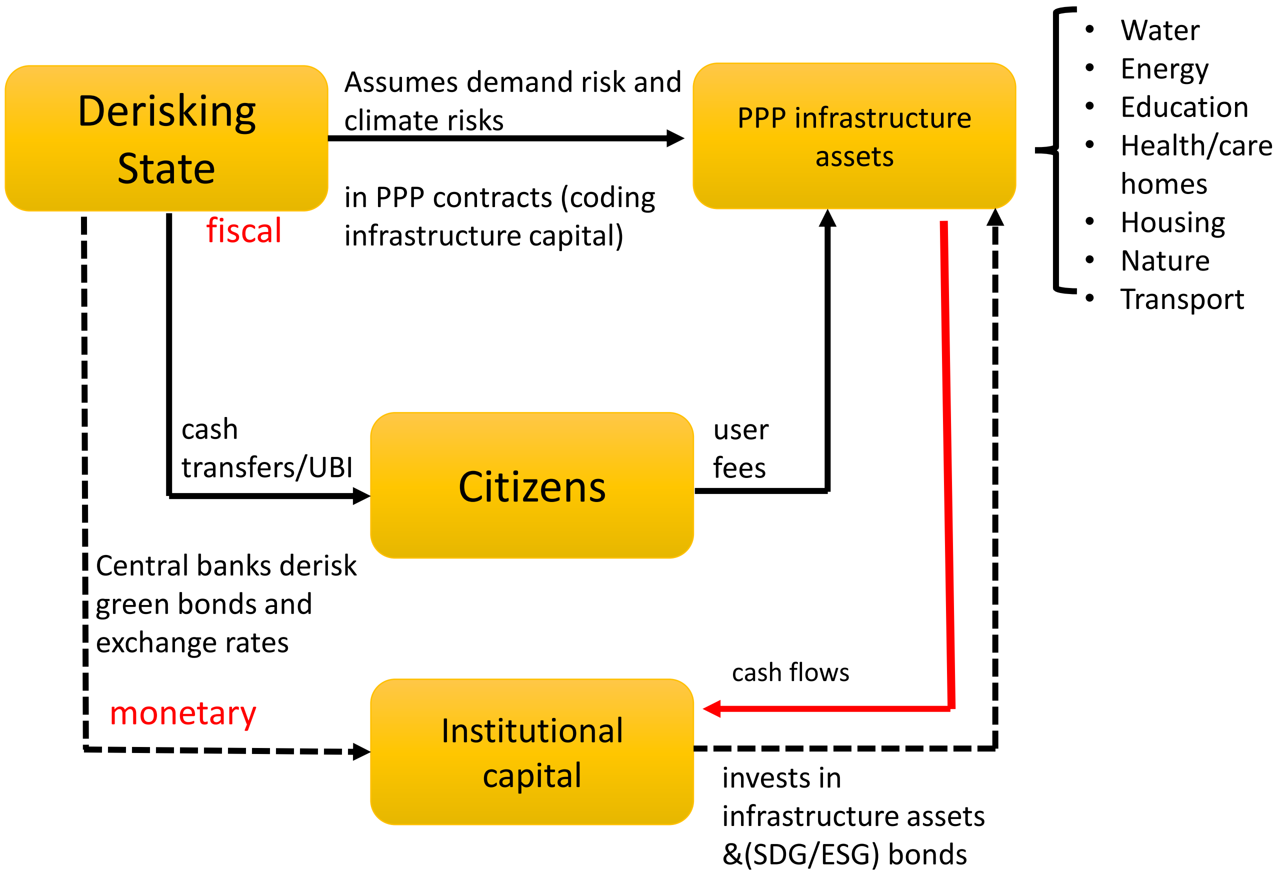
Carbon shock therapy in Wall Street Consensus

- Transition to low-carbon economy: structural transformation via subjecting companies to disciplining hand of price signals
- How: increase (liberalise) prices at which companies pollute & increase the price of credit through risk-based monetary measures
- Politics: imposed via IFIs (WB/IMF), potential BOP crises in context of COVID19 debt pressures and SDR reallocation, in local coalitions with central bank and against political opposition/contestation (job losses)

Maximize public investment for low-carbon transition



Maximize private finance for low-carbon transition (Wall Street Consensus): change risk/return profile for new asset classes



Climate derisking (Ryan Collins et al. 2022)

- protect financial system from climate risks (single materiality) – both physical risks of extreme climate events and transition risks (fiscal decarbonization via carbon prices)
- correct the risk/return profile of dirty assets: tilt unconventional bond purchases or collateral frameworks without abandoning market neutrality (Dafermos et al 2022 for Bank of England)
- *soft credit guidance*: increase relative price of dirty credit without targeting any sector-specific prices/quantities of capital and without defining (or aligning with) any distinctive decarbonization pathway
  - delegate the pace and nature of decarbonisation to private finance, despite systemic (ESG based) greenwashing
  - no green (re)nationalization of credit possible under monetary dominance (see Monet 2014, Naqvi 2019)

Small green derisking state

1. Delegates the pace and nature of decarbonisation to private finance (but DSSI, energy and food security)

2. Global South as consumers but not producers of green tech – amplifies technological and financial dependency
    - Closing infrastructure gap is not enough for green structural transformation
    - Uganda's Kiira Motors as example of green developmental state

3. De facto privatization of public goods: access and instability

Conclusion

- Can derisking state deliver on its low-carbon promises?
  - Without reforming market-based finance
  - Without challenging supremacy of USD
  - Without challenging (infra)structural power of finance
- Carbon shock therapies: learning from China
- Alternative green macrofinancial regimes: obstacles, actors, power and redistribution