ESMT BERLIN

Press release

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Green finance makes a limited contribution to climate protection

Private investors are increasingly investing in green finance, but this only contributes to reducing CO2 emissions under certain conditions.

Banks and fund companies offer green stocks, government bonds, and portfolios, which are intended to support the transformation of the economy toward greater sustainability. However, green finance does not necessarily have the positive characteristics that investors hope for. The reason is that there is virtually no causal link between green financing instruments and the use of the funds for green purposes in companies or the state budget.

This is the conclusion of a joint analysis by the Leibniz Institute for Financial Research SAFE, ESMT Berlin, and the Dresden branch of ifo – Leibniz Institute for Economic Research. Accordingly, green financial investments have far less impact than desired on corporate and government investments.

A green stock portfolio does not necessarily lead to fewer pollutant emissions

Companies that issue green shares do not become more sustainable simply by doing so. According to the authors, when stocks are assembled from companies that operate in an environmentally responsible manner, it does not yet lead to an actual change in overall economic production. “If you invest in green financial assets, it makes your portfolio greener, but it does not change the emissions of the overall economy,” says Jan Pieter Krahnen, SAFE Director and one of the authors.

Similarly, green government bonds allow the federal government to issue exactly the amount of green spending previously identified in the federal budget. Thus, only conventional bonds are replaced by green bonds: “Green government bonds do not provide the federal budget with additional funds for sustainable transformation,” emphasizes ESMT president Jörg Rocholl. If private investors buy green government bonds, there can therefore be no direct impact on climate protection.

Decision-making processes in companies can be influenced

However, private investors can become actively involved in corporate decision-making processes, either personally or through their fund representatives, to initiate an actual change in production toward greater sustainability. “In doing so, however, they must be prepared to accept a loss of returns, because a greener corporate policy usually comes at the expense of earnings,” says Marcel Thum, director of ifo Dresden.

The authors of the analysis call for sustainability efforts to focus on a political regulatory framework

rather than private engagement. For example, emissions can be significantly reduced with the help of an emissions trading system, so that a feasible adaptation path toward a CO2-neutral society can be achieved.

About ESMT Berlin

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About ifo Institute

Information and research: This is what the ifo Institute has stood for since its foundation in January 1949. It is one of the leading economic research institutes in Europe. His research investigates how government action can sustainably maintain and increase economic prosperity and social cohesion. The ifo Institute cooperates closely with Ludwig Maximilian University, the Center for Economic Studies (CES) and CESifo GmbH and is a member of the Leibniz Association.
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About Leibniz Institute for Financial Research SAFE

The Leibniz Institute for Financial Research SAFE ("Sustainable Architecture for Finance in Europe") is dedicated to interdisciplinary research on financial markets and their actors in Europe as well as science-based, independent policy advice. The institute relies on the cooperation of researchers from economics, law, and political science as well as on the diversity of scientific methods.

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