Chapter 10
Green Investment Financing Instruments

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ABSTRACT

The chapter analyses the peculiarities of current green financing instruments. Rapid development of these instruments markets prompts the need to comprehend the main factors behind it, and thus the necessity to recognize opportunities to profit by the occasion. In the chapter, such green financial instruments as green bonds, green equities, and green loans are discussed. Also, private green investment promotion instruments are overviewed. Current green financial instrument market development trends are presented, and main contributing factors are provided. Furthermore, main challenges of investing and development of environmentally sustainable business practices are analyzed. Based on the analysis results, insight regarding further development of green financial markets is offered.

INTRODUCTION

Environmental sustainability issue is one of the most important issues worldwide. Attempt to create environmentally responsible environment requires a considerable amount of capital. Therefore, the need for innovative fundraising alternatives has emerged and caused the evolution of the green financial markets. Since the very beginning, new markets and financial instruments face various challenges. Even definitions of many green instruments are not unified globally or even internationally. Lack of agreement on the terms of green financing, green instruments’ features often results in the lost opportunities for green project funding. Various issues of green financing were analysed by Banahan (2019), Bracking (2019), Dafermos et al. (2018), Park (2018), Tripathy (2017), Trompeter (2017) and many others.

DOI: 10.4018/978-1-7998-2193-9.ch010
Significance of the issue is also attested by the number of countries, involved in an attempt to resolve the challenge of raising capital for various green projects. For example, the Paris Agreement (agreement to reduce the global warming or at least to minimize its growth rate) was signed in 2015 by 179 countries of various development levels. Issued guidelines for green investing in many countries can be followed voluntarily, but in some countries, such guidelines are already compulsory. All transnational institutions (such as World Bank, Organization for Economic Cooperation and Development, World Resources Institute, European Investment Bank and many more) also take an active role in solving problem of fundraising for the development of environmentally sustainable practices. Different green financing instruments were introduced in search of optimal way to raise the needed funds (cases of such instruments and their effect were analyzed by Dafermos et al. (2018), Yadav et al. (2016), Silva and Cortez (2016), Little et al. (2015), Heckerta and Rosan (2016) and others. And new green financial instruments are being introduced at fairly fast pace.

It might be caused by the fact, that despite many setbacks, green financing instrument markets are rapidly evolving and growing. Therefore, analysis of the main factors, contributing to this market evolution should be analyzed in order to understand (for decision-makers – to make informed decisions), what further market makers’ actions could induce market growth rate or maintain it at a desired level. Also, the peculiarities of the green financial instruments themselves should be analyzed as it has a direct effect on the fundraising potential.

The goal of the chapter is to analyze main current green financing instruments, trends, causes and challenges of their market development, and potential accelerators of green financing instruments markets. Therefore the main objectives are the following: overview and analysis of green bonds and green equities attributes and market trends, overview of types and significance of green loans and budget financing instruments, presentation of private green investment promotion instruments, showcasing different types of the instruments, the role of public financing institutions in financing green investment.

The up to date literature and databases were selected to achieve the objectives mentioned above. The latest policies concerning green financing instruments are presented, while historical data is also used to demonstrate trends of the analyzed instruments.

BACKGROUND

The word “green” in nowadays economy is associated with the green growth, which in turn often means the way of economic development that is oriented towards the sustainability of the economy. Simultaneously, the term alludes to the saving or preserving the natural resources so that natural assets would be sustainable as well (OECD, 2011). Seeking green growth, green finance play an important role. There no single definition of the term „green finance“ presented in scientific literature. The G20 (Green Finance Study Group) defines green finance as „financing of investments that provide environmental benefits in the broader context of environmentally sustainable development. These environmental benefits include reductions in air, water and land pollution, reductions in greenhouse gas emissions, improved energy efficiency while utilizing existing natural resources, as well as mitigation of and adaptation to climate change and their co-benefits“. Inderst et al. (2012) relate the term green finance to socially responsible investing (SRI), environmental, social, and governance investing (ESG), sustainable, long-term investing or similar concepts. The scientists of Finance Watch and Z/Yen in the Global Green Finance Index (2018) define green finance as „any financial instrument or financial services activity – including