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Green Loans versus Climate Change

This article provides a comprehensive analysis of the regulation and impact of green loans in advancing corporate sustainability and combating climate change, with a particular emphasis on the European context. The article reviews the current regulatory landscape, encompassing both binding legal frameworks and voluntary standards such as the Green Loan Principles promulgated by the Loan Market Association. It examines the definition of green loans, the respective obligations of banks and borrowers, and the contractual mechanisms — such as sustainability covenants — employed to ensure that loan proceeds are allocated to projects with demonstrable environmental benefits.

The article identifies significant opportunities presented by green loans, including the mobilization of private capital for sustainable investments, the enhancement of corporate reputation, and the provision of financial incentives for borrowers who achieve predetermined sustainability targets. For financial institutions, green lending is increasingly mandated by regulatory requirements and market expectations, as environmental, social, and governance (ESG) risks become integral to risk management practices. Nevertheless, the article also addresses notable challenges, such as the risk of greenwashing, the relative lack of detailed regulation compared to green bonds, and the barriers faced by small and medium-sized enterprises in accessing green finance.

In conclusion, the article contends that while green loans represent a promising instrument for promoting sustainability objectives, there remains a pressing need for more precise regulation and enhanced monitoring to ensure their environmental integrity. The author advocates for the development of EU-level regulatory standards to harmonize green lending practices and strengthen the credibility of sustainable finance across the internal market.

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Keywords: green lending, corporate finance, sustainability

1 Introduction

1.1 Background

"Danske Bank would like to congratulate Sibanye-Stillwater's Keliber lithium project for signing EUR 500 million Green Financing Package for the construction and development of the lithium project in Finland."[1]

"DLG Group, a cooperative owned by 25,000 Danish farmers and one of the largest farm supply companies in Europe by revenue, has secured a €1.1 billion sustainability-linked loan (SLL). BNP Paribas acted as Co-Sustainability Coordinator, Bookrunner and Mandated Lead Arranger, to structure the facility together with DLG Group."[2]

"Nordea is delighted to have acted as the joint Coordinating Bookrunner & Mandated Lead Arranger and Documentation Agent in the refinancing of EQT Group's EUR 1,500m sustainability-linked revolving credit facility. A total of 20 banks participated in the refinanced RCF which has a tenor of 5+1+1y."[3]

To cite only a few instances, these kinds of news have permeated the corporate social media and Europe's largest banks' webpages in the recent years. Every one of these references have somewhat two common shared foundations. The first one is the word "green" or "sustainability" and the other is

1 Danske Bank 2024.

2 BNP Paribas 2024.

3 Nordea 2024.

that institutions such as Danske Bank, BNP Paribas and Nordea are all large banking institutions operating in Europe. Why is this influential to acknowledge? Global warming and other environmental catastrophes have been present for decades; however, meaningful actions to mitigate the associated risks appear to have only begun in recent past. The Paris Agreement's goal to limit the temperature increase to 1.5 °C would need significant amounts of financing, roughly USD 3 to 6 trillion every year until the 2050 target to net-zero emissions.[4] The public sector cannot undoubtedly solve the issue of global warming by itself, which means that to stop or at least slow down climate change, the financial sector and investors need to come into play and get in on the ground floor of solving this dilemma.

According to Financial Services Global Market Report, the volume of the global finance market is estimated to be approximately USD 33,54 trillion as of 2024.[5] This number would be equivalent to about 31 % of the whole world's economy.[6] The annual issuance of sustainable component of the financial market is predicted to be USD 6,61 trillion in 2024.[7] As declared earlier, this amount would already be adequate for the aforementioned yearly financing to obtain net zero emissions by 2050 if the financing would be directed straight into the climate controlling. Albeit it is theoretical to model it this way, these numbers are noteworthy since sustainable financing has not quite been the topic of the conversation before the decade of 2010. For background, the green bond issuance in 2012 was only USD 2,6 billion.[8]

Sustainability is no longer seen as an extra gimmick but is rather the main theme of many companies along with their core business activities. This also strongly reflects consumer habits and investors' awareness of corporate res-

4 United Nations 2022.

5 ResearchAndMarkets 2024.

6 Statista 2024.

7 Precedence Research 2024.

8 European Commission 2016.

ponsibility, which means that companies should also consider how they want to appear to cognizant investors, who, along with debt financing, are practically essential for the companies' growth.[9]

1.2 Research materials and methods

In this paper, I'm evaluating the role of financial institutions, more precisely the banks that mostly manage the global green bond and green loan market. I will review the published legal literature on this subject and also a number of official sources, including texts by legislators and authorities that are currently supervising the banks in Europe. The regulatory framework of debt financing is very largely provided by the more general bank solvency rules at the EU level and by the rules established by banking associations such as Loan Market Association (LMA) - which is of course not enforceable as such compared to the rule of law. I will go further in the detail of debt financing regulations later in the paper.

The main research question is what green financing is and more precisely, how green lending is regulated and whether the regulation should perhaps be shaped in a different direction as green debt finance grows in popularity and investors might give increased weight to the information about green lending to back their investment decisions. While the study focuses mainly on financial markets in the European Economic Area, it is worth noting that green debt finance is a critical form of financing around the globe in the fight against climate change.

The structure of this paper is to first explain the debt financing institution in general and how it is used in corporate finance. It will be only for backgrounding purposes, as this paper will proceed to green loans thereafter. I will go through a general discussion of the regulatory framework for debt financing and its contents, in particular from a corporate sustainability perspective. I will then go on to present the various problems and contradictions inherent

9 *Hauptmann* 2017, p. 2.

in this relatively new form of financing, for example through the infamous theme of greenwashing. Finally, I will summarise the main research question and the insights gained while assessing the issues discussed and give ideas for future research on the topics of sustainability-linked financing.

2 Corporate financing

2.1 The necessity of financial markets for business

To understand the need for green loans, we need to take a closer look on the basics of debt financing. The need for financing is common to almost all businesses.[10] Businesses need finance, as conducting business requires a certain minimum level of corporate wealth and liquidity. This is due, among other things, to the fact that the company often emerges from its business expenses before earning income, and businesses need funding to cope with their payments and other obligations. For example, a company's investments in machinery and equipment may begin to generate revenue only after years of making an investment decision. The simplest way to describe the "financing problem" is that the company's operations are the payment of expenses in order to generate revenue.[11]

Financial markets have several other tasks in addition to financing companies' projects. For example, it has been suggested that the tasks of financial markets are:

> 1) to transfer assets in a controlled manner from sectors in surplus (e.g. households and other investors as well as banks) to sectors in deficit (growing enterprises);
>
> 2) to provide information to investors who need information to support their investment decisions (I'll explore this further in chapter 4)[12]

A company may receive financing in the form of equity (in practice investors and owners) or debt (mainly credit institutions). On a practical level, finan-

10 *Knüpfer – Puttonen* 2018, p. 17.

11 *Lauriala* 2013, p. 29–30. *Leppiniemi – Lounasmeri* 2021. (Luku 3, Reaali- ja rahaprosessi)

12 *Knüpfer – Puttonen* 2018, p. 53. There are also other tasks for financial markets mentioned in the book, but they are more related to the risk management of the investor, which is not relevant in terms of this study.

cial institutions mediate funding, whether it is on equity or debt terms.[13]

Equity financing refers to investments made in the company by the owners, such as capital received through a share issue or capital investments. It is one of the hallmarks of equity that equity investors do not receive a predetermined return on their investment. The risk of investing is therefore higher in equity in contingent investments, in addition to which equity investors have the assets of the company in the case of distribution, a worse position than, for example, debt-backed financiers. However, it follows from the higher risk profile that equity investors have higher return requirements and expectations than debt providers.[14] I will not go into more detail in equity financing in this paper, but it is advisable to understand what is meant by it, especially in relation to debt financing.

Debt financing refers to the financing provided by external lenders to a company. At its most typical, this refers to loans granted to enterprises by credit institutions such as banks, with a continuing interest requirement and a repayment obligation. Foreign capital is also characteristic to the fact that the lender requires eligible collateral for the loan. The advantage of borrowing capital over equity is that borrowing capital is usually cheaper than equity financing.[15] On the other hand, in principle, lenders do not have decision-making power in the company's matters. However, later in this paper it will become apparent that the lender may also impose conditions (covenants) on the company when granting the loan, in which case the decision-making power will partly flow to the lending bank as well.

2.2 Regulation of debt financing markets

Banking regulation has relied mainly on self-regulation, until the financial crisis in 2008 prompted decision-makers to take into account the failure of

13 *Knüpfer – Puttonen* 2018, p. 54.

14 *Lauriala* 2013, p. 30–31.

15 *Knüpfer – Puttonen* 2018, p. 39–40.

banks and the importance of solvency in legislation.[16] Since banks play an enormously important role in society, not only in investment and corporate finance, but also in other areas such as basic banking services for private individuals, regulation has tightened significantly in the 2010s.[17] Among other things, regulation has been developed in relation to solvency, for example, through Basel regulation. Given the importance of prudential integrity and maintaining competitiveness between banks, regulation is indeed supranational and, for example, in the European Union, Member States cannot impose greater prudential rules on banks than other countries. This will thus ensure the realisation of the principle of free movement of EU capital and the effectiveness of the internal market.[18]

Even though the banks are heavily regulated, corporate debt financing itself is not that regulated in detail.[19] However, when looking at large companies (loan size over 50 million), the loans are often syndicated and therefore international and thus regulated e.g. under English law.[20] Syndicated loans are arranged so that the credit risk of one bank does not grow too high. Considering the credit risks of banking institutions, banks' capital adequacy regulation is undeniably in the forefront when it comes to banks' obligations. According to European Banking Authority (EBA), bank adequacy is "regulated", or should it be said more accordingly, "agreed" by Basel standards together with Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).[21] "Agreed", since the Basel standards are not legally binding legislation, but rather internationally coordinated guidelines developed by the Basel Committee on Banking Supervision, whose members include central

16 *Dill, Alexander* 2013, p. 1.

17 *Heikkilä* 2017, p. 64, 67, 72–73, 279. *Wuolijoki* 2022, p. 5–6, 45.

18 *Wuolijoki* 2022, p. 8, p. 11.

19 *Wuolijoki – Hemmo* 2013, p. 73.

20 *Wuolijoki* 2022, p. 140.

21 The Basel framework: the global regulatory standards for banks

banks and banking regulators from 28 jurisdictions.[22] Basel standards are also really effective, as they allow the committee to impose ”penalties” for banks failing to follow the standards.[23]

In the European Union, efforts have been made to increase ESG (Environmental, Social and Governance) obligations, especially towards banks, and this has a direct impact on credit to companies, as credit accounts for a significant share of the bank's investment portfolio.[24] Banks should also take into account the borrower's ESG risks in their corporate lending assessment, which refers to the negative economic impacts that corporate borrowers' sustainability challenges indirectly cause to banks.[25] The purpose of regulation of sustainable-linked finance would be at least to achieve the Paris climate agreement goals which I mentioned earlier, through banking, but interesting about the subject is how it is regulated or is it regulated at all by the legislator.

Regarding the regulation of sustainable finance in general, the classification system for sustainable operations (taxonomy regulation), the framework for providing information to financial and non-financial companies, together with the EU Climate Transition Benchmark Regulation and the European standard for green bonds have been highlighted in the legal literature.[26] There is other regulation as well, but these three are likely to provide the main guidelines for promoting sustainable finance in the context of the 2018 launch of the Action Plan on Financing for Sustainable Growth.

However, when assessing the regulatory framework for debt financing, it is worth remembering that a loan agreement is an obligation between two parties, subject to the principles of freedom of contract. Freedom of contract as a

22 Bank for International Settlements - The Basel Committee - overview

23 *De Veiga, Chan, McAleer* 2012, p. 95

24 *Wuolijoki* 2022, p. 143.

25 EBA 2021, p. 6.

26 *Rajavuori – Turtiainen* 2021, p. 88.

general principle has, at least in the early 2000s, been seen as very important, especially in the business world. The principle of freedom of contract is still supported by, among other things, the principles of free movement and freedom to conduct a business in the European Union.[27]

There must therefore be a good justification for restricting the freedom of contract. On the other hand, the validity of the principle of freedom of contract has been seen to depend on its acceptability.[28] Exercising freedom of contract shall not have negative effects on other parties or on the rest of society. Environmental sustainability, for example, is undeniably coming between freedom of contract and freedom to contract, since it is probably not enough to prevent climate change by relying solely on the contracting parties' own actions. The liberal nature of contractual freedom is based on the fact that there is no need to restrict contractual freedom if the parties themselves contribute to reducing harmful effects without regulatory constraints.[29]

I would say that the regulation of debt financing has so far been considered unnecessary, but as the importance of sustainable development increases, we may see in the next few years the introduction of restrictions on contractual freedom, so that social responsibility and environmental protection can be made more effectively the responsibility of companies. It has also been argued, particularly with regard to environmental sustainability, that where there is a choice between options that promote environmental interests (e.g. normal loan vs. green loan or normal project vs. sustainable project), the aim should be to choose the option that will promote sustainable development. On the other hand, there is no consensus on whether limiting freedom of contract is the right way to enhance sustainability. [30]

27 *Hemmo* 2003, p. 70-77.

28 *Kaisto* 2021, p. 92.

29 *Hemmo* 2003, p. 70-71.

30 *Kaisto* 2021, p. 100.

3 Sustainability in corporate lending

3.1 Green lending

"Green loans are any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects."[31] This is how a green loan is defined. But who made the definition? Certainly not the legislator, as such term is absent in EU regulations or, for example, in Finnish legislation.

The Loan Market Association was founded in 1996, and its key objective is "improving liquidity, efficiency and transparency in the primary and secondary syndicated loan markets in Europe, the Middle East and Africa". They work closely with lenders, law firms, borrowers and regulators to educate the market about the benefits of the syndicated loan product, and to remove barriers to entry for new participants.[32] In 2018, LMA published Green Loan Principles (GLP) in order to establish the definition of green loans at international level. However, green loans are not a new invention. Financial institutions, such as Bank of America, began to devote funding towards sustainable entrepreneurship already in 2007.[33]

GLP states that "[Green Loan Principles'] aim is to create a high-level framework of market standards and guidelines, providing a consistent methodology for use across the green loan market, whilst allowing the loan product to retain its flexibility, and preserving the integrity of the green loan market while it develops." Consequently, although the term "green loan" has been adopted by major financial institutions for well over 15 years, the LMA, together with leading financial entities, yearned to shape the jointly agreed-upon boundary conditions for a green loan. In practice, the following conditions must be

31 Green Loan Principles 2020, p. 2.

32 Loan Market Association – About us.

33 Bank of America's Environmental Sustainability.

obtained for a loan instrument carrying the term ”green loan” for the loan to be claimed green:

> 1) “Use of Proceeds: Designated Green Projects should provide clear environmental benefits, which will be assessed, measured, and reported by the borrower.
>
> 2) Process for Project Evaluation and Selection: The borrower of a green loan should clearly communicate how it is organized to assess and select projects that will receive loan proceeds. In addition, the borrower explains how it will manage environmental and social risk of eligible projects.
>
> 3) Management of Proceeds: The proceeds of a green loan should be credited to a dedicated account or tracked by the borrower to maintain transparency and promote the integrity of the product.
>
> 4) Reporting: The principles recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (for example, energy capacity, electricity generation, greenhouse gas emissions reduced/avoided, etc.).”[34]

At first glance, the terms of the GLP seem to be very broad. By this I mean that there are no detailed guidelines in the principles and supervision of the compliance with the principles is predominantly left to the lending bank or lender syndicate and the greenness of the loans seems not to be that strictly controlled by the LMA, for example. It should also be noted that green loans are mainly used to finance certain projects. However, it is possible to take on green debt, for example, for “whole business” if the business responsibility plan fits the criteria for responsible credit. They are examined through the Key Performance Indicators (KPIs). The sustainability-linked credit mechanism is

34 World Bank 2021.

nowadays used in both bank loans and bonds.[35] The criteria for green bonds have also been defined in the same way as green loans, and regulation can now also be found at the EU level. While the regulation of green bonds and its comparison to green loans would constitute a compelling area of analysis, the limited scope of this paper precludes a more extensive examination of the topic.[36]

3.2 Covenants in corporate loans

In order for a company to obtain a loan from a bank with the term ”green loan” in its name, the company must comply with the above requirements. Since the requirements have been left somewhat open and mostly to be decided by the lending banking syndicate, a green loan may perhaps be suitable for any type of project that covers these requirements. As the conditions for granting the loan and monitoring ”greenness” are left to the banks, they will have to do monitoring of complying with the requirements. This monitoring can be carried out, for example, through covenant conditions.

The covenants are specific conditions considered in the credit agreement between the creditor and the borrower by which the borrower undertakes to maintain certain financial and operational conditions throughout the duration of the credit relationship.[37] Covenants are a means of controlling, directing, and limiting the actions of the borrower in the desired areas to ensure the ability to service the credit. Indeed, a premature basis for the repayment of the debt may arise for the creditor on the basis of a breach of covenant conditions.[38] The right to terminate is important to the creditor for the reason that even if it does not exercise its right to maturity, it guarantees the creditor

35 *Lehtonen – Wuolijoki* 2022, p. 297-299.

36 See e.g. Green Bond Principles 2021 and the European Union Green Bond Standard. (The standards for green loans have in fact actually been developed on the basis of green bonds).

37 *Välimäki* 2014, p. 77.

38 *Tirole* 2006, p. 103.

a strong bargaining position.[39] Covenants are in fact crucial for the banks to also comply with Basel regulation with higher-risk companies.[40]

Banks, therefore, mainly use financial covenants or key figure covenants to overcome credit risk. But when it comes to green credit, traditional covenants do not succeed to measure corporate responsibility in projects. To this end, banks can, and also must use sustainable (or more precisely "environmental") covenants in the terms of the credit agreement when granting green loans.[41] More precisely, as the GLP requires, the borrower needs to complete a compliance certificate yearly to show that the credit assets have been used in accordance with the sustainability-linked contractual provision relating to the use of the credit.[42]

As the borrower's responsibility increases its weight in the banks' risk management and stated emission reduction targets, the material deteriorations in the sustainability figures will also give rise to a maturity criterion in corporate lending.[43] The deteriorating accountability of corporate borrowers over the duration of the loan, in other words, may damage the bank's emission-free lending profile.[44] The bank should solve the problem by inserting a contractual condition in the credit agreement that allows it to amortise the credit as the borrower›s liability figures deteriorate to a certain predefined level. Such contract term could also be called a sustainability covenant, as explained above, as its characteristics would be much like those of financial covenants, where the maturity criterion arises from the weakening of the financial ratios of credit.

39 *Adler* 2020, p. 2.

40 *Adler* 2020, p. 4.

41 Green Loan Principles 2020, p. 3-5.

42 *Lehtonen – Wuolijoki* 2022, p. 294.

43 *Lehtonen – Wuolijoki* 2022, p. 294.

44 Bank of Finland 2023.

4 The positive and negative impacts of green loans

4.1 Borrowers

Now that I have briefly discussed the lender's needs for financing, as well as the obligations towards the lender, I will discuss more detailed the benefits of a green loan and why a company should or should not apply for such a loan. The demand for green loans has been growing in recent years and there must be good reasons for that - not forgetting the business reasons that spring from the Companies Act.[45] In my opinion, the benefits and needs for a green loan in a company mostly arise from external impacts on the company, such as consumers and investors. For example, a company's reputation may suffer if it does not consider the emissions it produces in its operations.

In this case, customer behaviour and buying behaviour could change. Consumers may choose not to purchase certain products compared to previous purchasing behaviour. It has even been studied that a company may have difficulty motivating and engaging its employees, if the company's policies are perceived as repugnant among the personnel.[46] In other words, in addition to maximizing shareholder value, it is expected, especially from large companies, that operations are somewhat sustainable in addition to normal business. It is worthy to acknowledge that together with environmental and climate protection, sustainable business operations also involve social and governance aspects. These together are called ESG.[47] As the granting of green loans is mainly based on the assessment of positive environmental impacts, this paper mainly focuses on environmental and climate aspects when it comes to corporate responsibility. For other, or more general, corporate responsibility-

45 Nordea 2019.

46 *Thompson* 2021, p. 59.

47 *Ristaniemi* 2022, p. 26.

related loans, the term "Sustainability-linked loan" is in use.[48]

Applying for a green loan and implementing corporate responsibility is largely based on the influence of external factors in the company's strategy. Thus, the starting point for a medium-sized or at least a large company is likely to be that if there are no plans defined in the strategy for climate goals, the company's reputation is heading in a negative direction. Applying for a green loan would therefore aim to get out of this negative "baseline" to the level that is expected from the company. In addition to reputation, there are also business benefits for the borrower. If the borrower reaches the sustainability targets, it often earns a small price reduction in green loans compared to a conventional credit instrument.[49]

As always, there is a downside. Sustainable loan is most certainly not free. As mentioned previously, not only financial covenants but also sustainability covenants are placed on the green loan, and these are monitored annually. Since reaching the sustainability targets is rewarded with a price reduction, in return, if the covenant conditions cannot be fully met, or if the sustainability covenant breaks completely, the lending bank has the option to increase the loan margin or, in the extreme case, mature the loan prematurely.[50] From a business point of view, this could lead to significant losses and unfinished projects for the company.

However, for many large companies, corporate sustainability reporting and other corporate sustainability obligations are already commonplace, and the above scenario is not that likely to occur.[51] But for smaller and perhaps even medium-sized enterprises, the matter is not that simple. Especially for those

48 The Loan Market Association has also published "Sustainability-linked loan principles" (SLLP's) that "aim to facilitate and support environmentally and socially sustainable economic activity and growth."

49 *Wuolijoki – Lehtonen* 2022, p. 294.

50 *Wuolijoki – Lehtonen* 2022, p. 294.

51 *Hummel – Jobst* 2024, p. 5-7.

who, for example, are not covered by the Corporate Sustainability Reporting Directive in terms of size, there may be significant constraints on proving the ”greenness” of their project.[52] The company may not have experts internally in terms of corporate responsibility, and paying for the services of an external expert does not necessarily make sense on business grounds. However, in recent years, consulting companies specializing in sustainability reporting and auditing have begun to create services and systems that would make sustainability reporting commonplace, along with other accounting obligations.[53]

4.2 Banks

Banks' sustainable lending also seems to be becoming mandatory in modern times, as new regulations and regulatory requirements require environmental factors to be considered, especially in corporate finance. Investors and consumers are thus not only putting pressure on access to environmental targets, but now also on financial market managers, i.e. banks are increasingly being obliged to go green through political decision-making. Banks' lending can be effectively regulated by means of capital requirements related to lending. Currently, the development trend is that the ESG risks of the company being financed, such as the risk of causing environmental damage, will actually gain greater weight in the credit consideration and also in the capital requirements for lending. The European Central Bank has already required that climate and environmental risks be considered in banks' risk management frameworks.[54] There is also a growing need for banks to acquire sustainable loans in their investment portfolios to make them for example carbon neutral.[55]

The fundamental idea in banking, and especially in the provision of debt financing, is interest income for the lending bank. The interest income serves

52 *Saunila, Rantala, Ukko, Havukainen* 2019, p. 654.

53 Deloitte 2022.

54 *Wuolijoki* 2022. p. 143.

55 Danske Bank 2021.

as a counterbalance to the risk of credit loss, in which case the borrower is unable to meet its contractual obligation, i.e. repay the credit. In practice, the higher the interest rate on the loan, the greater the risk to the debtor's insolvency.[56] This is not only because the bank wants to make large profits, but also because Basel regulation and other prudential regulations oblige the bank to ensure that it has sufficient cash and other assets that can be quickly converted into cash to pay off its maturing payment obligations.[57]

The basic idea behind green finance is that the debtor could get a cheaper loan when it considers ESG risks in its projects for which it needs a bank loan. This therefore may lead directly to a reduction in the bank's risks and thus also to a reduction in the level of interest rates imposed by regulation.[58] On the other hand, in addition to lowering the interest rate, green projects can also be guaranteed through institutions with a state background, such as Finnvera Oyj, which further reduces the bank's risks.[59]

4.3 Investors and society

Finally, it is necessary to assess the current state of green lending more generally in terms of society and investor protection. As I mentioned earlier, a loan is essentially an agreement between the borrower and the lender or lenders. These agreements, although bilateral, have significance for the rest of the public, for example investors. Investors are seeking a return on their invested capital, in addition to which investors are increasingly hoping for accountability in their investment targets.[60] Interestingly, sustainable investing can actually provide not only a value boost, but also a better return on investment

56 *Kurkela* 2010, p. 11.

57 *Wuolijoki* 2022, p. 10.

58 *Wuolijoki* 2022, p. 144.

59 Finnvera Oyj – Environmental Guarantee. See also: Borenius 2024.

60 *Collin* 2021.

than traditional investing.[61] It is therefore at least in the interests of investors to obtain information about the investment.

I mentioned Danske Bank, BNP Paribas and Nordea news about the arrangement of green loans. Needless to say, these news aim to arouse investors' interest in the company being loaned. If, in the context of a major project, a respected bank publishes that the project has been granted a green loan, it means, at least according to the principles of the LMA, that the project (and possibly in the rest of the company's business) has projects to improve the environment and climate and energy efficiency.

In the end, how extensive is this single social media post? For example, does it mean that a green project in Finland reflects the goals of the whole Sibanye-Stillwater Group for sustainable business? Not necessarily. A good example is the piece of news I linked at the beginning of this paper about the Sibanye-Stillwater Keliber lithium project in Finland. The project itself is green and the investors may get the impression that the company could be a good investment within ESG targets. At the same time, a report has been published in the same year that significant human rights violations have been detected at the Sibanye-Stillwater mine, for example in terms of wages and occupational safety.[62]

In terms of the environment and society, it is possible that green lending does have beneficial effects on slowing global warming. Still, it is questionable how far the greening extends into the value chains of large companies. In the case of Sibanye-Stillwater, it would seem that green funding for a particular project may not reach all corners of the company's complex value chain. Meanwhile, small and medium-sized enterprises may find themselves in a different situation, especially if they have only one unit in their group. This is obviously a problem for which solutions should be sought. It does not make sense that a company that has received green funding in Europe is destroying nature and

61 *Silvola – Landau* 2021, p. 163–164.

62 *Finnwatch* 2024.

climate on the same scale, for example in South America. In legal literature, attempts have been made to identify solutions to this problem in terms of international sustainability laws and certain cross-border regulation has also been examined in support of them.[63]

63 *Salminen – Rajavuori* 2019, p. 605–606.

5 Conclusion

It is clear that green finance is a form of financing for the 2020s and the future in debt financing. The amount of credit tied to sustainability has been increasing, and I cannot see any reason why green lending growth would slow down in the upcoming years. I would see that as reporting tools evolve, companies are driven to design solutions that protect and improve the environment, climate and energy efficiency. Green financing for small and medium-sized enterprises will also be easier in the next few years if the right tools help companies assess the sustainability of their operations and thus report forward towards the banks.

I would see the need for sustainable business to be considered in every industry, as climate change is already at an alarming stage. If nothing is done about it, the political bodies will have to take a firmer grip in legislative ways, which may create difficulties for businesses. If companies are more willing to develop solutions to improve the state of the climate, they could also prepare themselves more easily as stricter sustainability reporting requirements increase. In addition to companies that are applying for loans, banks can and also do things to finance sustainable business. Indeed, the objectives of the banks might even be quite ambitious in the future, and it is not impossible that at some point the maturity criterion will also be used in practice for loans in situations where the company has not achieved sufficient sustainability targets. In other words, breaking the covenant may appear to the bank as not having enough interest and negotiating, but wanting to punish the company with breaking the covenant.

In order to avoid unnecessary risks to an individual company, it might be appropriate to have regulations restricting banks in relation to green loans. Banks are already heavily regulated, so the associated regulatory framework is likely to be quite receptive to the new regulation. Although the banks have done a good job of setting targets for a zero-emission future, I believe that, in political ways, there is a reason to consider extending regulation to the field of lending as well. The European Union has already published regulations

on green bonds in 2023. Prior to this, bond regulation, like loans, was based on the guidelines and principles of the International Capital Market Association. Perhaps a similar regulation could be considered for the loan side, for example as a European Green Loan regulation. However, as loan agreements are subject to general freedom of contract, it will be interesting to see whether the terms of loan agreements can ultimately be determined at the level of the legislator. In Finland, but also even at EU level, freedom to conduct a business is recognized as a fundamental right, and any interference with it would require precise justification.

Promoting corporate sustainability through bank financing already seems to be an effective way to encourage and guide companies towards more responsible operations. Banks' lending can also be efficiently guided by capital adequacy requirements because banks do business with their assets, and they do not want to tie up too much of their own capital. Although the inclusion of ESG risks in lending also has social policy objectives of improving corporate responsibility, the need to regulate credit sustainability risks can mainly be justified by maintaining macro-stability.

Corporate sustainability has many benefits, but the most important benefits of responsibility are its positive effects in stopping the climate crisis. In the meantime, the EU's regulatory framework for sustainable finance still assumes that private capital flows will be directed to the most climate-friendly companies and investments. It remains to be seen whether green lending will be the new normal. At least for now, it is in significant demand and its demand is increasing constantly. In my view, the kind of regulation it will require will be most likely seen to be coming from the EU level.

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