

# Bank Interest Rate basis the Pollution factor of goods manufactured/purchased – Concept Paper

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## UNDP – Goals for 2030 on Climate Action

Quote

### Goal 13 – Climate action - Take urgent action to combat climate change and its impacts

There is no country in the world that is not seeing first-hand the drastic effects of climate change. Greenhouse gas emissions continue to rise, and are now more than 50 percent higher than their 1990 level. Further, global warming is causing long-lasting changes to our climate system, which threatens irreversible consequences if we do not take action now.

The annual average losses from just earthquakes, tsunamis, tropical cyclones and flooding count in the hundreds of billions of dollars, requiring an investment of US\$ 6 billion annually in disaster risk management alone. The goal aims to mobilize \$100 billion annually by 2020 to address the needs of developing countries and help mitigate climate-related disasters.

Unquote

### Opportunity

Time for financial world to re-think how we can help and address or provide support in bring in better control or get additional funds to support Government, UN and other agencies to fight climate change or get funds for research. A step up required to support Global Climate challenge!

Today agencies like – Moody's, S & P, Fitch rate companies, countries on various parameters like financial health, business growth opportunity, investors profile etc. This helps banks to position the creditworthiness and basis which market interest rate gets determined, for e.g. Greece bonds have higher interest rate compared to countries like US or Germany as they are weaker and repayment capability is lower.

On similar limes is there something financial institutions can bring in change and help in addressing some of the aspects of UNDP goal on climate change. This will be in addition to the taxes paid on some of the products in different part of the World.

### What can be done?

Can we look something bit differently today and bring in extra cost to organizations which pollute more even though they have very sound financial institution and the money coming out be used for funding clean energy and technology around it to help shape it for future?

It is time, additional interest rate be paid or fixed basis pollution opportunity and index of the company, this will be further to other factors considered at the time of financing the company or the individual basis the product purchased.

Basically higher the impact to global warming, higher the interest for the company, for e.g. if a company is used manufacturing of Diesel car, it will pay higher than the one making electric or solar car or company will pay higher interest for one producing plastic product to the one producing paper products.

### **How does the interest rate will work or may be calculated?**

The base interest will be calculated basis credit factor, financial strength and present market rate for the product country. However, the additional Climate Based interest will come in as follows

Net pollution interest = (% of emission generated out by manufacturing (x) goods per unit (per kg) + pollution index)/100

For e.g. – manufacturing of plastic

Plastic may generate around 6 kg of CO2 per KG of plastic

Place of manufacturing is Peru, Lima = Pollution index is 89.39 (as per numbeo.com)

Plastic Companies Net Pollution interest will be =  $(6 + 89.39)/100 = 0.95\%$

If the same were to be manufactured in Cairo – 1.3% as against 0.95% in Peru

If the company is get a financing for 6%, then it will have to pay additional 0.95% tax compared

Likewise a cycle manufacturing company will be paying lesser interest to a motor cycle company which produces petrol bikes

Further we can add additional factor like contribution to water pollution if the water is from a River or other sources, which will impact the eco system.

### **What is the benefit?**

Additional funds coming from this will be going to the Governments and part to UN for research and development, this can help us fight degradation along with making people to feel for using polluting goods.

UN and Countries/Countries getting this funds can leverage on climate action, millions coming out will help to fight ecological challenges to meet some part of 2030 goals of UN and towards 100 billion planned by 2020

**Note – the additional interest calculated is one example, this will need to be further developed and details will be shared in days to come.**