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Green Financing: Need of an Hour

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Abstract:

Industrial Revolution 4.0 has degraded our natural environment and rampant pollution which pose challenge to sustainable economic growth. In order to protect and develop economy on a sustainable phase, there has been growing demand for Green Projects and other eco friendly projects. Thus, Green Finance is a structural approach to arrange finance for environmentally sustainable projects like production of energy from renewable sources, clean transportation, and other energy efficient projects, etc. It requires appropriate strategy and incentives to deploy funds for sustainable growth in the country. This research article envisages the progress of Green Financing in India and understands Green Financing in broader sense.

Keywords: Green Finance, Sustainable, Green Projects, Green Economy

Introduction:

Green Finance includes all types of financial assistance in form of lending and borrowings towards the environmental sustainable projects (Volz 2015). The investments envisage the eco- friendly economic growth with development of climate resilient infrastructure. Increase in carbon emission due to rapid industrialisation across the region has threatened the environment leading to vulnerability of climate change and increase in temperature of earth thus need arose for such sustainable project. Green Finance is a measure to increase the level of financial flows (banking, micro-credit, insurance and investment) from the public, private and non-profit sectors to promote sustainable development priorities. Therefore 'Green Finance' is a modern tool, integrating environment protection with economic income, both complimenting the Sustainable Development Goals as set by United Nations. In this research article, dimension of Green Financing is being studied with special concern to Indian Economy.

1. Green Finance definitions
2. Green Financing in India.
3. Green Finance Products and Instruments.
4. Institutional Framework for Green Market.
5. Conclusion & Recommendation.

Methodology:

In this research paper purely based on the secondary data and the data has been collected from secondary source like Published articles, websites, government report etc. Researcher has reviewed various literatures and published government reports to reach the findings and conclusion.

Definitions of Green Finance:

Green Financing is a concept develops to support and achieve the goals of Sustainable Development. It is an innovative approach adopted by individuals, companies and government to fund and invest in green projects and other low carbon emission projects (Huang 2019).

Linderberg (2014) concluded that Green finance includes all investment and public policy in environmental goods and services and all other investments aim to mitigate damage to the environment and climate.

Bahl (2012) defines green finance as the financing of eco-friendly activities, green technology, and all other projects that reduces environmental pollution.

The group of reseachers Volz, U., Böhnke, J., Knierim, L. and others concluded that, Green Finance encompasses different classes of investment or lending which impact environment and its sustainability.

A.Beshlossa and M. Machacheli studied the reliability and size of Green Bond in the market designed for Green Projects.

The Green Finance Study Group (GFSG) refers Green Finance as investment benefiting environment by its sustainable development, building energy efficiency and mitigating climate risk.

Thus Green Financing is a modern structured financial activity in this global economy in order to improve the environment by funding and promoting green projects and mitigating the climate risk.

Green Financing in India:

In 2007, India started emphasising on Green Finance on the initiative of RBI on its notification on "Corporate Social Responsibility, Sustainable Development and Non- Financial Reporting-Role of Banks" and highlighted the adverse impact of global warming and climate change in the relation to sustainable development. In this relation, The National Action Plan on Climate Change (NAPCC) was formulated to figure out the broad policy to mitigate the impact of climate change (Jain 2020).

In, 2011 Ministry of Finance developed The Climate Change Finance Unit (CCFU) as a common platform to harmonise all the institutions responsible for Green Finance in India. The strategic move was made by SEBI in 2012, as it made mandatory 'Sustainability Disclosure Requirement' for top 100 listed entities based on Market Capitalisation at BSE and NSE to furnish annual Business Responsibility Reports in public which needed to be updated time to time. In, May 2017 SEBI issued guidelines for Green bonds issuance for disclosure requirements. In the same parlance, Ministry of Corporate Affairs mandate the reporting of company progress on Corporate Social Responsibilities (CSR) under Indian Companies Act 2013.

In present scenario, India needs time and investment to achieve its Nationally Determined Contributions (NDCs) by 2030 i.e. environmentally sustainable, low carbon initiatives and adopt other climate friendly path to develop economy. In addition to this, PM Narendra Modi has given 'five nectar element' or Panchamrit at COP 26 Summit in Glasgow as India's commitment towards environment with the target by 2030.

All these initiatives requires INR 162.5 lakh crores from 2015-2030 roughly INR 11 lakh crores per year for climate action. Thus India needed cumulative investments for INR 716 lakh crores to scale up climate transition and achieve Net-Zero emission by 2070(CEEW, 2021) for all these purpose India need deployment of fund specially for such green project.

Instruments for Green financing in India:

To meet the financial need for these green projects, a new segment of financial instruments has being developed such as green bond; Carbon tax; green Indices, green venture capital, green loan, green insurance, etc. RBI emphasised on the development of Green Banking and Green Eggs all set up together to make Green Finance. These instruments are developed to increase the allocation of funds in environmentally friendly projects and support sustainable growth of economy on the parlance of environment. As a part of the green financing initiatives, the RBI has included the small renewable energy sector under its Priority Sector Lending (PSL) scheme in 2015. In India, all these instrument form three categories; Debt-Equity-Government and Budgetary Expenditure.

Debt holds about 50% of the total finance flows; Equity approx 26% and Government and Budgetary Expenditure (including Government Expenditure through PSUs) is 19%.

PSUs invest in eco sustainable projects via grant-debt and equity, with Debt source as 50% of total source of finance.

Green Bond:

Green bond is a debt instrument similar to other bonds only the difference in the amount received from this bond should be used for energy efficient projects relating to renewable energy, emission reduction, reforestation, etc. Green Bonds are issued by any Government or non- Government entities like corporates with the objective to arrange funds for environmentally classified projects. The first green bond for infrastructure project was introduced by Yes Bank in 2015. In the same year IDBI raised &350 million worth green bond through Singapore Stock Exchange. Axis Bank launched its $500 million worth Green Bond in 2016.

Carbon Trading:

The Government of India has set certain carbon emission target for the companies. If these companies do not meet their emission targets, they have alternative approach purchasing these carbon credits from market who is having surplus of these credits. This process is known as Carbon Trading. Monetary gain from exchange help companies to buy better technology which further helps companies to reduce carbon. Thus Carbon Trading is one of the instruments in Green Finance Market that is benefitting Indian industries in two ways, i.e. attaching financial incentives with sustainable development of environment.

Institutional Framework for Green Market:

The major component of Green Finance is Green Bonds, which is primarily issued by Public sector Units or corporate entity with sound financial position.

RBI has actively developed the local green bond market for actively participation of investors for investing in green projects. RBI has added small renewable energy sector lending under its Priority Sector Lending (PSL) scheme in 2015 to support green finance initiatives in India.

Indian Renewable Energy Development Agency (IREDA) a govt org has announced India’s first Green bank in May 2016.

India Infrastructure Finance Corporation Limited (IIFCL) has actively launched ‘Credit Enhancement Scheme’ for energy efficient projects (Business Standard 2013).

Multi Commodity Market of India is Asia's first exchange house to trade Carbon Credit, as tradable instruments based on greenhouse gas emission. India's Carbon market is one of the fastest growing markets of the world. It has generated approx 30 million credits, which is second largest transacted volume.

The most recent Act in support to build Green Infrastructure in corporate sector is framing of The Energy Conservation Bill, 2022, a regulatory framework for carbon markets in India, but still it is having a long journey to become an Act.

Challenges to Green Finance:

- **Lack of awareness:** The awareness about green finance is lacking among the youth (Smiriti & others 2019). The demand for green finance is high in foreign countries as compared in India. Even the web search for green finance and green bonds are limited (RBI Bulletin January 2021).
- **Lack of supporting Infrastructure:** Green Finance lacks supporting infrastructure for its successful implementation. There are no standards for comparison and transparency norms for green projects.
- **Lack of policies and norms:** There is no specific policies and norms for green finance. Asymmetry information, no standard definition, no strategy policy, lack of regulatory norms etc. Contribute towards poor attention from the investors for such projects.
- **High Borrowing cost:** The cost of issuing green bonds are higher than other corporate and government bonds in India, this is due to lack of available information, which ultimately leads to high up-front cost with cost saving features applicable in long term. This maturity mismatch in green finance increases the cost of borrowing (G20, GFSG 2016)

Conclusion & Recommendation:

Existing studies and global research suggest that slowly and steadily, Green Finance is gaining a momentum in India, by collaborative efforts of RBI, PSUs and Government initiatives. There is need of standardisation of green finance and its terminology, a proper well structure policy framework to address the existing friction between demand and supply of funds for green projects. Removing of asymmetric information between borrower and lender will significantly improve the performance and development of green finance market system. Awareness campaign and other communicating platform must be developed to spread awareness about green finance-its need-its importance for the economic growth aligned with sustainable development of environment. Even though India is the largest beneficiary of carbon trading but still it lacks a proper policy for trading of carbons in the market.

There are enough evidence to prove interdependence of Environment on Business and Business on Environment, to keep pace with Global development, it is needed to align all the economic development activities keeping in mind the factors of environment. Green finance is one of the measures to neutralise the impact of profiteering economic progress on the cost of environment. To unleash the true potential of Green Finance in India, we still need more stringent framework and research in this area.

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