



Green Financing: New Age Financing to Sustainable Economic Growth

Dr. Mukta Jain

Associate Professor, Dyal Singh College, Karnal

&

Richa Sharma

TGT Geography, Pratap Public School, Sector-6, Karnal

Abstract:

One bottom line of profit maximisation has long back been replaced by triple bottom line which requires companies to focus on social and environmental issues also along with profit maximisation. All over the globe, researches are being conducted continuously to identify novel approaches for achieving sustainability. Investment in green technology, green consumption and green production is the need of the hour. Green finance has the potential to make a significant difference in the environment and society. The financial support given to projects dealing with environmental protection, reducing the effects of climate change, reducing carbon-emission and investing in renewable sources is known as "green finance." The present paper studies the various types of green finance and the challenges for green finance.

Keywords: *Climate change ,Green Banking, Green Finance, Green Finance Product, Sustainable Development,*

Introduction

Over the past few decades, the world economy has increased rapidly but at the cost of the environment and society causing problems such as global warming, climate change, greenhouse gas emissions, habitat destruction, environmental degradation, poverty, etc. An increasing number of natural disasters, extreme weather conditions and global warming are clear evidences of significant negative impact of economic growth on environment and planet earth. As these problems became more pressing, the people started realising that investment must be made in sustainable projects without sacrificing the potential of future generations to meet their demands. People are willing to pay a premium for the companies with better sustainable performance record. Governments, investors, corporates, individuals and NGOs worldwide are beginning to take action to address the climate problem. Investment in green technology, green consumption and green production is the need of the hour. In

order to meet the financial needs of the projects supporting sustainable economic growth, funds need to be diverted from conventional industries to environmentally friendly industries. Huge amount of investment is required to move to a low-carbon economy and to finance the activities that cut greenhouse gases emissions. Moreover, a need was felt to develop innovative financial instruments and tools to address the financial problems of sustainable business projects. It was felt that green finance is critical for decarbonising the world and can provide economic and environmental benefits to all . Green finance is a loan or investment that promotes environmentally-positive activities. It can help businesses to grow , create employment, reduce carbon emissions , stimulate the economy and create a green multiplier effect where all three, i.e., the economy ,the society and the environment continuously benefit.

Significant investments are required for shifting to a low-carbon economy which is possible only if private sector is ready to come forward. Though a lot of funds are coming from government, public entities and philanthropic entities, there exist still a big gap between the requirements and supply of funds which need to be filled in by the private sector.

Investment into sustainable and environmental projects is commonly known as Green Finance. Green Finance is the arrangement of financial requirements of projects that, besides giving investors a fair return, focus on protecting the environment for sustainable and inclusive development. Such projects may include projects on waste management, pollution control, water management, renewable energies, biodiversity protection, low carbon emission, reforestation, etc. Green financing provides funds to the companies undertaking such projects to enable them to grab the business opportunities in the market. Finance is the life blood of every organisation and the financial system is the growth engine of every economy. At the time when everyone was talking about sustainable development, environment protection and corporate social responsibilities of business, the financial companies and banks realised that to save their reputation in the society, they must also adopt the green sustainable development principles and ensure that they are not funding any project which is detrimental to the environment. Green finance is a good way to meet the challenges of sustainable development.

Objectives of Green Finance:

Green financing strategies deliver economic and environmental benefits to all and are used to achieve the following goals:

- Foster low-carbon environment friendly growth resulting in socially inclusive growth.
- Generate funding for the construction and maintenance of green infrastructure
- Provide funds to enterprises using green management practices
- Develop markets for environment-friendly commodities and services by creating awareness
- Shift in banking objective from profit maximisation only to profit maximisation with responsibility.

The achievements of these objectives will result in a great green multiplier effect in which the economy, the people and the environment gain making it a win-win situation for everyone.

Types of Green Financing

The major types of GF include green bonds, microfinancing, sustainable funds, credits for sustainable developments, and improvement in entire financial systems in a more viable way. According to the EU high-level expert group on sustainable finance (2017), GF could be broadly described as a financial system that provides and addresses the challenges of sustainable development, sustainable housing, retirement, infrastructure, technological development, climate change mitigation, and other long-term educational and societal issues. Different types of green financing are as follows:

Green Grants and subsidy: Government provides grants and subsidies for green projects which reduce carbon emissions and do not cause environment degradation. In India, government provides subsidy for installing solar plants, renewable energy projects, etc. under various schemes to promote solar energy. Consumers can avail a subsidy of 30% under Solar Rooftop Subsidy Yojna of the central government for installing solar rooftops if the average installation cost of rooftop PV system without subsidy is in between Rs. 60,000 to Rs. 70,000 per kw. The amount of subsidy is up to 70% in special states like Himachal Pradesh, Uttarakhand, Sikkim, Jammu & Kashmir and Lakshadweep. Even different state governments provide subsidies for installing rooftop solar plants. Similarly, subsidies are being provided to lure the buyers to go for electric vehicles.

Green Guarantees: In developing countries like India, investment in green projects is still considered to be risky and the green projects struggle for affordable loan facilities. The reasons are limited financial supply, lack of awareness and outdated technology, stability and liquidity issues, lack of information and understanding of climate risks etc. Guarantees provide an assurance to the lenders that in case of default by the borrower, their loan will be repaid by the guarantor. Due to higher risk associated with green projects, many banks are reluctant to finance such projects. Green guarantees act as a strong de-risk mechanism to mobilize funds into environmentally friendly projects. A good example of such guarantee is: India Green Guarantee. India Green Guarantee is a guarantee provided by the UK to the World Bank so that World Bank provides loans to India for financing green projects in India. MSME Credit Guarantee Schemes (CGSs) support the financing of green initiatives of micro, small and medium enterprises (MSMEs) in India. The Green Guarantee Company is the first ever global guarantor dedicated to providing guarantees for climate bonds in developing countries. There is a need to innovate such more Sustainable Loan Guarantee Facilities.

Green Banking: The term green banking means developing inclusive banking strategies to encourage environment friendly practices which will ensure sustainable economic development. The banks are promoting **online banking** in their pursuit to go green. Online banking saves time as well as paper. The people need not travel to the bank resulting in fuel saving as well as pollution emissions. The green products offered by the banks are:

Green Saving Accounts: Green saving account is an environmental-friendly saving account with a higher interest rate for the investors. Banks lend money to environmental friendly initiatives at a lower interest rate on the basis of savings done by customers in their green saving accounts. A few countries offer tax benefits also to the green saving account holders.

Green Deposits: It is a fixed-term deposit for investors who are aware of the importance of sustainable investing to achieve the ESG (Environmental, social and governance) goals. The funds in green deposits are used for giving loans to renewable energy projects, green building projects and projects in smart agriculture, water or waste management projects etc. to build a sustainable economy. Green deposits give return to the investors as well as to the planet earth. A few banks such as HSBC, Central Bank of India, IndusInd Bank, and HDFC have launched green deposits in India for corporates as well as individuals.

Mobile banking and online banking: The banks are promoting **online banking** in their pursuit to go green by reducing carbon footprints. Online banking saves time as well as paper. The people need not travel to the bank resulting in fuel saving as well as pollution emissions. Banks motivate their customers to pay bills online, to transfer funds online, to download e statements, etc to ensure paperless banking. All these have a positive impact on the environment.

Green Cards: At present, most of the banks are using plastic debit and credit cards leading to plastic waste and carbon footprints. Banks should now try to switch to eco-friendly cards by choosing the right technology and processes. A good substitute for common plastic cards are Thales Gemalto sustainable and eco-friendly cards - Bio Sourced PLA cards use sustainable plastic substitute made from non-edible corn; Ocean Plastic® cards made by using 70% plastic cleared from coastal areas and Recycled PVC card made of post-manufacturing material from different industries such as packaging and printing.

Recycling banking cards: To minimise carbon footprints of bank cards, the old expired cards are recycled in such a way that 0% of these materials end up in a landfill. Moreover, efforts are being made to design such cards which do not contain unnecessary components such as magnetic strips so as to facilitate recycling process.

Green Car Loans: Green car loans are loans to buy cars which are fuel efficient and have less carbon emission such as electric cars. These loans usually carry lower interest rates than regular loans and have zero processing fees. In India, Government even give subsidy to the buyers of electric vehicles.

Green Home Loans: Green home loans carry a comparatively lower interest rate than regular loans. Such loans are provided for houses which are energy efficient. To support sustainable development, one can go in for green houses built by using sustainable raw materials. Loans are usually used for installation of solar plants, green roofing, energy efficient windows, etc. In India, IIFL Home Finance in association with Asian Development Bank is promoting green affordable housing in Andhra Pradesh and Telangana. Other banks are also providing green home loans.

Green Differentiated Reserve Requirements: Cash reserve or statutory reserve ratios are the share of deposits that banks must hold in cash and cannot lend out. High reserve ratios adversely affect banks' lending capacity. Lowering reserve ratio on green assets can help in investing in green assets in place of traditional or conventional assets.

Green Banking is still at the nascent stage in India inspite of a number of initiatives taken by the government in this field.

Green Insurance: Green insurance provides indemnity for environmental and ecological losses as also help in the rehabilitation of ecological damages. These schemes provide enhanced risk coverage at low premium to the owners of green products such as hybrid or electric vehicles or sustainable buildings constructed with eco-friendly materials.

Green Bonds: Another effective and increasingly popular green finance instrument is Green bonds which are fixed- income instruments. The proceeds of green bonds are used for funding environmental projects such as sustainable agriculture, fishery and forestry projects, water management, air or water pollution prevention, etc. Such bonds may also carry some tax advantages and incentives. Till date, green bonds are the most mature and appropriate financing instruments. In India, YES bank issued the first green bonds in 2015 for financing renewable and clean energy projects, particularly for wind and solar.

Challenges:

Most experts agree that banks and other financial institutions will be crucial in funding the shift to a low-carbon economy and preserving the nation's climate commitments. It would be crucial in this process to ensure access to enough transitional finance and supporting technology. Climate event and financial impact estimation is a tough task because of unpredictable and uncertain climate change. With the funding of public and commercial green investments as well as public policies supporting green initiatives, green finance represents a constructive shift in the global economy's transition to sustainability. In order to promote investments that help the environment, two key goals of green finance are to internalise environmental externalities and to lower risk perceptions. However, mobilising finance for green investments is constrained due to several challenges. Major challenges of green finance are lack of long-term financing, the low rate of return, high borrowing costs, the existence of various risks, and the lack of capacity of market players. Moreover, there is a mismatch between long-term green investments and short-term time perspectives of savers. The approaches to financial and environmental policy have also frequently not been integrated. Besides, many governments do not clear their stand on green transition. The role of government becomes important because of inadequate initiatives by the private sector to invest in green projects. Governments need to take steps to make green finance more competitive by providing subsidies and tax incentives. The definition of green finance needs to be more transparent. Governments need to make it mandatory for the corporates to include information on environmental, social and governance aspects in their financial disclosures. There is need to create trust of the investors that the loans are being used for green projects. Certification process can help in verifying the project selection and in verifying

the use of fund for green projects. Advanced Financial technologies can also provide support to green finance by eliminating the need for intermediaries and the possibility of corruption.

References:

- <https://sumas.ch/5-examples-of-sustainable-development/>
- <https://www.cbd.int/financial/gcf/definition-greenfinance.pdf>
- <https://emeritus.org/blog/finance-what-is-green-finance/>
- <https://www.thegef.org/sites/default/files/events/Intro%20to%20Green%20Finance.pdf>
- <https://greenfdc.org/a-growing-toolbox-of-sustainable-finance-instruments/>
- https://www.climatebonds.net/files/reports/asean_green_fin_istruments_cbi_012019_0.pdf
- <https://www.greenfinanceplatform.org/page/explore-green-finance>
- <https://www.business-standard.com/about/what-is-green-deposits>
- <https://rbidocs.rbi.org.in/rdocs/Speeches/PDFs/BSBFSISUMMITF9F9354E0E074B9DAC7DC5D38AA78559.PDF>
- <https://www.idos-research.de/en/briefing-paper/article/green-finance-actors-challenges-and-policy-recommendations/>
- <https://www.adb.org/publications/green-energy-finance-india-challenges-and-solutions>
- <https://encyclopedia.pub/entry/14190>
- [Parvadavardini Soundarrajan, Nagarajan Vivek :Green finance for sustainable green economic growth in India](#)
- [Slobodan Rakić - Petar Mitić :Green Banking - Green Financial Products with Special Emphasis on Retail Banking Products](#)
- [DragicaStojanović: Sustainable Economic Development Through Green Innovative Banking And Financing](#)
- [Dipika: Green Banking in India: A Study of Various Strategies Adopt by Banks for Sustainable Development](#)
- [Paul RoseDebt for Climate: Green Bonds and Other Instruments](#)