



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

GREEN FINANCE

SHRUTI JAIN,

Research Scholar, Indira School of Business Studies PGDM Pune

ROSY KALIA

Assistant Professor, Indira School of Business Studies PGDM Pune

Abstract: Gone are the days when profit was the only motive of all the organizations across the globe. Nowadays, the need of protecting the environment and preserving natural resources is gaining more importance in all fields. Researchers have been conducted continuously all over the world to find innovative ways to attain the goal of sustainability. Green finance is defined as the monetary assistance provided for the projects that deal with environmental protection, mitigating the effects of climate change, investing in renewable sources of energy, increasing the green cover, and all other projects related to sustainable development. This article considers the aspects of Green Banking, Green Insurance, and Green Bonds as a part of Green Financing. It also evaluates the opportunities and challenges for Green Finance in developing countries like India with the help of existing literature and attempts to give new insight about Green Finance as an effective tool of Sustainability.

Keywords: Green Finance, Sustainable Development, Green Investment Product, Awareness

I. INTRODUCTION

The goal of green financing is to increase the amount of money that the public and private sectors, as well as nonprofit organizations, allocate to priorities for sustainable development. This money comes from banking, microcredit, insurance, and investment.

Green finance is the term for financial investments that fund initiatives for sustainable development. The investment covers a wide range of programs, including initiatives to protect biodiversity, improve water sanitation, reduce industrial pollution, encourage energy efficiency, prepare for climate change, and support renewable energy sources.

The aim of green finance is to establish an equilibrium between the environment and the economy. Though there is no clear-cut definition for green finance, any monetary assistance provided for projects with the major aim of contributing to sustainability like the construction of green buildings, efficient management of energy, waste management, preservation of biodiversity, projects related to renewable sources of energy and other related projects can be termed as Green financing. Public sector investments are not sufficient to meet the requirements under these projects. Initiatives from the private sectors and cross-border investments should be encouraged to meet the rising demands. At the same time, regulatory framework and proper policy actions are required to address the problems related to fundraising and the application of those funds. Unfortunately, funding of renewable energy generation, energy efficiency management, and green investment products are not given priority because of limited awareness, subsidies given to fossil fuel in various countries, the bias of low returns, fear of breach of trust, and mismanagement of funds invested, and other such reasons. Finance and Environment are treated as two separate domains and are no proper actions are taken to integrate this approach. The 2015 Paris agreement has considered the financial aspect as one of its three long-term goals along with others being limiting the rise of global average temperature and increasing the ability in adapting to the impacts of climate change. Measures are needed to integrate these two aspects through international agreements, policy actions, and bringing them under the proper regulatory framework. In this article, attempt has been made to evaluate the role of Green Financing as an effective tool of Sustainability and the various opportunities available and challenges that arise while integrating the approaches of Finance and Environment in India.

II. ROLE OF GREEN FINANCE

- To provide financing for environmental goods and services such as water management or protection of biodiversity and landscapes.
- To prevent, minimize and compensate the damages to the environment and to the climate.
- To provide financing of public policies which will encourage the implementation of environmental and environmental-damage mitigation or adaptation projects and initiatives.

III. AREAS COVERED UNDER GREEN FINANCE

1. Green Banking

It deals with encouraging eco-friendly practices with the help of banking activities. Green banking helps in the protection of the environment and thus contributes to the welfare of nature and the financial sector. It operates by integrating technological improvements, changing stakeholders' expectations, and operational innovations. The Indian banks providing green banking services to their customers are State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, ICICI Bank Ltd, DFC Bank Ltd, Kotak Mahindra Bank, IndusInd Bank, YES Bank, HSBC Group, IDBI, etc.

2. Green Insurance

The Insurance industry is a member of the family of Green financial sector, and thus plays a major role in attaining sustainability goals. Although the insurance industry hasn't been involved directly in environmental degradation and has nothing to do with framing regulations regarding these issues, it works as the backbone for green financing by providing information related to risk management and significantly lowers the risk involved with its various strategies and its business of underwriting. The Insurance Regulatory and Development Authority of India (IRDAI) recently announced that Third Party (TP) premium rates for insurance of private electric vehicles will be given at 15 percent discounted rates from FY 2019- 20.

3. Green bonds

Here the issuer of the bond promises to utilize the proceeds from the bond in the funding of energy-efficient products, reforestation, climate-related projects, and other assets or business activities aimed at the protection of the environment. A balanced approach is needed which considers the proper allocation of funds in eco-friendly projects and at the same time, it has to consider the risk and return involved with the bonds. Green bonds help the issuing company or financial institution in enhancing its goodwill among the stakeholders and helps in getting access to the investor base who are determined to invest only in green investment products. At the same time, it helps those investors who want to invest in socially responsible projects and thus satisfies their urge to integrate investment and social responsibility.

Green bonds were first issued by the European Investment Bank and the World Bank in the year 2007. Later, private companies, banks, and financial institutions started issuing green bonds. Securities and Exchange Board of India (SEBI) has issued guidelines for listing and issuing of these debt securities in India. As per SEBI guidelines, the proceeds of such bonds should be invested in green projects including renewable energy, initiatives of climate change action, preserving biodiversity, reducing pollution levels, management of waste, etc.

IV. TYPICAL PROJECTS THAT FALL UNDER THE GREEN FINANCE UMBRELLA INCLUDE

- Renewable energy and energy efficiency
- Pollution prevention and control
- Biodiversity conservation
- Circular economy initiatives
- Sustainable use of natural resources and land

V. BENIFITS OF GREEN FINANCE

Not only the environment but also the economy will get benefits from green finance. It helps in bringing harmony between the monetary aspect and nature. The various benefits offered are.

- Efficient energy management:** Various incentives are provided for installing and using renewable energy resources and funding is provided for projects aimed at reducing wastage of energy under green financing. Thus, efficient energy management can be achieved.
- Environmental protection:** As the major aspect of green financing is the funding of the projects aimed at sustainable development, environmental protection is an integral part of the funding. Thus, this concept will help in reducing pollution levels, adapting to climate changes, mitigating depletion of the ozone layer, preserving biodiversity, etc. which are very much needed for the survival of living organisms.
- Enhances reputation:** Since the increasing number of stakeholders wants to contribute to society through their investments and thus to perform their social responsibility work, they will be giving priority to the companies that work towards benefiting

the environment. Even the government provides incentives for eco-friendly projects. Hence green financing will help the organizations to build and enhance their reputation in the long run.

- d. **Helps in attracting FDI:** Concerns about the protection of the environment are rising across the globe. As a result, foreign investors while investing in domestic companies will evaluate the projects taking into consideration the social cost and the benefits. Thus, issuing green investment products will attract foreign direct investment to our country.

VI. LIMITATIONS OF GREEN FINANCE

- 1) **Ambiguity regarding definition:** There is no standard uniform definition for green finance. It will become difficult for investors to choose the right green projects as there is no clarity regarding the definition, which will lead to confusion, and thus it works as a barrier for investment in green projects.
- 2) **No proper regulatory framework:** There are no specific laws, rules, and regulations related to the evaluation of green projects and there exist no particular policy actions regarding green investment. This regulatory gap acts as a hurdle for the growth and development the green investment.
- 3) **Lack of awareness:** Though certain groups of people are opening up to eco-friendly investments, there exist a large number of stakeholders who are not aware of the concept of green finance itself. The lack of information and awareness will result in less capital accumulation in green investment products than required. This will lead to an imbalance in terms of demand and supply of funds.
- 4) **Give rise to the unhealthy competition:** The market participants will take unfair advantage of the growing demand for green investment products and try to maximize their market share by using the name of green projects. This will lead to unhealthy competition and ultimately ignores the concept of sustainable development, for the sake of short-term economic profit.

VII. RECOMMENDATIONS

- 1) **Ambiguity regarding definition:** There is no standard uniform definition for green finance. It will become difficult for investors to choose the right green projects as there is no clarity regarding the definition, which will lead to confusion, and thus it works as a barrier for investment in green projects.
- 2) **No proper regulatory framework:** There are no specific laws, rules, and regulations related to the evaluation of green projects and there exist no particular policy actions regarding green investment. This regulatory gap acts as a hurdle for the growth and development the green investment.
- 3) **Lack of awareness:** Though certain groups of people are opening up to eco-friendly investments, there exist a large number of stakeholders who are not aware of the concept of green finance itself. The lack of information and awareness will result in less capital accumulation in green investment products than required. This will lead to an imbalance in terms of demand and supply of funds.
- 4) **Give rise to the unhealthy competition:** The market participants will take unfair advantage of the growing demand for green investment products and try to maximize their market share by using the name of green projects. This will lead to unhealthy competition and ultimately ignores the concept of sustainable development, for the sake of short-term economic profit.

VIII. CONCLUSION

Green finance is fast emerging as a priority for public policy. In this study we review the developments of green finance in India and our findings indicate that there have been some improvements in public awareness and financing options in India in recent years. Existing literature suggests that a reduction in the asymmetric information regarding Green Projects through better information management systems and increased coordination amongst stakeholders could pave the way towards sustainable long term economic growth.

At this juncture, the world is fighting COVID-19 and its impact on global economic growth. Undoubtedly, the immediate policy challenge is to kick-start the global economy. However, the pandemic has also offered an opportunity to all stakeholders to rethink about the policies, and financial and operational strategies that they have adopted so far and espouse an approach that is more environmentally sustainable in the long run. Green finance is definitely an important means that can facilitate such a shift towards sustainable economic growth.

IX. REFERENCES

1. https://www.researchgate.net/publication/359204126_Green_finance_research_around_the_world_a_review_of_literature (Ozili, Green finance research around the world: a review of literature, 2023)
2. <https://www.aimspress.com/journal/gf> (Valter Franco, 2023)
3. <https://rjhssonline.com/AbstractView.aspx?PID=2021-12-4-6> (Chhaochharia, 2023)
4. https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID3571734_code1520621.pdf?abstractid=3571734 (Jayathilake, 2023)

X. BIBLIOGRAPHY

Chhaochharia, M. (2023, 03 24). *Green Finance in India: Progress and Challenges*. Retrieved from Research of Humanities and Social Sciences : <https://rjhssonline.com/AbstractView.aspx?PID=2021-12-4-6>

Jayathilake, S. (2023, 03 24). *Impact of Green Financing for the Corporate Governance in the Banking Industry*. Retrieved from SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3571734

Ozili, P. K. (2023, 03 24). *Green finance research around the world: a review of literature*. Retrieved from Research Gate: https://www.researchgate.net/publication/359204126_Green_finance_research_around_the_world_a_review_of_literature

Ozili, P. K. (n.d.). *Research gate*.

Valter Franco, S. S. (2023, 03 24). *AIMS PRESS*. Retrieved from Green Finance: <https://www.aimspress.com/journal/gf>

