

GREEN FINANCE IN INDIA: CHALLENGES AND SOURCES

Dr. Jyoti Kumari*

ABSTRACT

Green Finance is an investment that promotes environmental positive activities. It is central to the overall discussion on sustainability of economic growth. Rapid economic growth is often achieved at the cost of environment. India is now in a situation where it has to accept the challenges from the international forum to improve its Green infrastructure and attain the sustainable economic growth and for survive of our country we have to adopt Green Finance. Green finance covers a wide range of financial products and services which can be divided into banking, investment, insurance products. In this study, challenges of Green Finance, sources of Green Finance in India have been briefly discussed. This study is descriptive in nature and based on secondary data.

KEYWORDS: *Green Finance, Sustainable Growth, Economic Growth, Investment.*

Introduction

Green finance is very difficult to attain, low carbon & Green growth. Green Finance is an Investment that promotes environmental positive activities. Green Finance refers to an economic system that is specific to use for economically sustainable projects that embrace aspects of climate change. Environmentally sustainable projects includes the production of energy from renewable sources such as solar, wind, biogas etc., clean transportation include low greenhouse gas emissions, energy efficient project such as green buildings and waste management which includes recycling, efficient disposal, conversion to energy. It plays an important role of linking economic growth, environmental improvement and the financial industry with each other. Financing of such environmentally important projects has always been a challenging task for the Indian economy.

The first ever strategic step taken in this direction by the Indian Government was the signing of International Solar Alliance with France on 1st December, 2015 with the aim of climate concerns by taking joint global efforts in this regard. Financing for Green projects becomes more difficult for a developing Country like India, given the increased demand for energy due to high economic growth, rapid industrialization and urbanization. Green finance covers a wide range of financial products and services which can be divided into banking, investment, insurance products.

Some Green Projects

- Energy efficient improvement and waste heat utilization projects
- Biomass energy- Bio gas, Rice husk, Sugarcane molasses waste
- Green Housing- Rain water harvesting, Waste Management, renewable energized, sanitation, Eco friendly material
- Bee keeping
- Rural and Eco Tourism
- Improved Jute retting technology
- Finance projects which address conservation issues- Prawn hatchery, Fish seed preparation etc.

* Assistant Professor ABST, Government PG Girls College, Chittorgarh, Rajasthan, India.

Review of Literature

A study by **Goel P (2016)**, his study found that the proportion of socially responsible investments in relation to total managed assets in Asia excluding Japan in 2016 was only 0.8% which is much lower than in global regions. The major challenge on the path to sustainable development is the lack of inadequacy of disclosure that addresses environmental/ long-term systemic risk factors.

As per **Weather Bond Initiative Report (2019)** institutional investors can play an important role in Green Finance by creating liquidity in the market by raising fund from pension funds, Hedge funds, Mutual funds etc.

Mhadev Kharade (2021) in his study, he found that the alarming rise in pollution in India, it becomes imperative to utilize the potential that the Green Finance does not use to Finance Green projects. For reducing the total cost of capital of private capital investors mixed financing is needed.

Kumar N. and Vaze P. observed in his study that a mechanism for harmonizing the relationship between the environment and finance is established for an efficient green financial system. For proper allocation of resources proper management will help and which will reduce the risk to the environment. This study suggested that the role of the Government would be important in removing barriers to Green Finance.

Objectives of the Study

- To understand the concept of Green Finance
- To know about the challenges, sources of Green Finance in India

Research Methodology

This study is descriptive research in nature and based on secondary data which have been derived from various websites and journals.

Challenges for Green Finance in Indian Economy

- **High Debt Cost:** In our country it is a major problem. This coupled with the short tenure period of loans and makes investing in green projects a less lucrative option for the investors.
- **Disclosure Requirement:** The second issue that persists is the disclosure for the issuance of Green Bonds. SEBI lists down disclosure and doesn't state anything in particular, it just state that the Annual Reports shall include 'a brief description of such project and assets disbursed' (SEBI, 2017 P3). On other hands looking for the viability of such projects, they require a huge amount of funding from stakeholders and thus they require a proper sketched out report rather than just a One-dimensional summary. Further SEBI has demanded the issuers to estimate 'Qualitative Performance Indicators and where feasible, quantitative performance measures' (SEBI, 2017, P3) but there is not any particular metrics established for the same. So, the lack of standardization and usage of diverse range of indicators creates problem, thus render different projects incomparable.
- **Lack of Proper Framework and Policies:** In our country, lack of proper framework and policies which are aligned with each other pose is a significant problem. India has listed out various policies, circulars, agendas revolving around the environment, sustainability and renewable energy but they are not linked to each other. For example, the Global Business Practices list out four key components of Green Financing to serve as guidelines for the bond issuers which are – Process for project evaluation, Proceeds management, Proceeds use and Reporting. They demand an appropriate and elaborate description of the whole process in a legal manner but on the other hand SEBI requires the issuers to disclose in a brief manner only Funds utilization, so making the investors doubt about the credibility of Green project in India.
- **Asymmetry of Information:** In these days Green Project is the new interest area for many investors but lack of knowledge in the environmental subject and less disclosure by the companies increases the cost of Green Assets and thus, reduces the sector's charm.
- **Poor Analytical Capabilities:** The overall apprehensions of repercussions of environmental hazards by financial institutions are yet to be achieved. Investors in the market and banks have not developed the study to achieve and quantify the credit and market risks which may arise from environmental exposure, so understanding the risk of 'Brown Investment' and exaggerating the risk in Green Investment Projects. The deep knowledge and understanding of environmental

risks subjects are extremely crucial for risk mitigation in a better way in enabling a better internalization of environment externalities in analyzing and for boost speed to Green Investment projects.

- **Requirement of Sensitization:** In India, the financial sector is not completely aligned to the world's efforts in accelerating green finance in aspects of interest and awareness about 'Green lending and Green Investment practices', though our country attempts to malign itself with some global initiatives but it is limited to very few organizations.

Sources of Green Finance in India

To increasing Green finance there is requirement of access to diverse sources of capital, public and private sector participation and appropriate financing structure. There are various sources of Green Finance in India like Green Bonds, Carbon Banking, and Green Banks etc. Our country is still in emerging stage.

- **Green Bonds**

This type of bonds can be issued only for assets/ projects with an environmental purpose like as Renewable energy, clean transport, Sustainable Water or waste management, climate change adaption and energy efficiency and funds raised to be used in same purpose. In the year 2017, SEBI enabled raising capital through the issue of Green Bond principles framed by International Capital Markets Association in the year 2014. If companies have long investment cycle in carbon assets they may not eligible to issue green bonds because the eligibility criterion is clearly demarcated. Lack of green taxonomy, assessment and rating framework are some causes of slow uptake of green bonds. For scaled up of green bonds the existing regulations should be more inclusive and the use of proceeds criteria to be broadened, market for green bonds should be stronger.

- **Carbon Banking**

One of the key outcomes of the COP26 conference in the month November, 2021 was the conclusion of the Paris rulebook which included the agreement of fundamental norms for govern carbon trading. This effort will give a push to develop a domes C carbon market for emission trading in our country. Currently, India does not have an explicit mechanism for carbon pricing/ market based carbon trading. By defining mechanism for identifying quality carbon offsets, developing carbon accounting standards and a transparent mechanism, a voluntary Carbon market for the private sector may be developed.

- **Blended Finance**

For Small scale and micro impact projects accessing finance requires moving away from traditional public grants, institutional lending and philanthropic sources, and explore Blended Finance structure which allow strategic use of development finance for sustainable development from private sectors. Social impact bonds for small budget interventions at the municipal, district and state level, for climate transition can be used as a funding structure which blends impact investing, public-private partnerships and outcome based finance. Outcome based funding structure enable investors to provide early risk financing for implemnet of green projects.

- **Retail Investors and Corporates**

Corporate funds may be a useful funding source of green finance. As per Indian company law it is mandatory for corporates to allocate funds towards corporate social responsibility activities which are unrelated to their own business. Many corporates opt to fund environmental causes as part of their CSR strategy like developing solar parks, plantation etc. There is potential for more concerted utilization of CSR funds pooling vehicles which particularly target climate mitigation measures.

Conclusion

Green Finances' future in India looks incredibly promising, fuelled by the government's unwavering commitment to sustainable development and an increasing demand among businesses and investors for robust sustainability credentials. There are many challenges for Green finance in India but considering with proper solutions of these challenges our country can grow in Green finance. Active participation of both Public and private sector is imperative for the green finance landscape to flourish further. Indian economy must incorporate climate risk, social, environmental and governance related considerations into lending and investment decisions in the time carefully balancing credit expansion, economic growth and social development.

References

1. Jain S. (2020), "Financing India's green transition". ORF issue Brief No. 338, January 2020, Observer Research Foundation.
2. Md. Kashif A. Yukta A (2022), "Green finance in India: Trend and Challenges", Hans Shodh Sudha, Vol. 2, Issue 4, (2022), Pp. 43-50 ISSN: 2582-9777, April-June.
3. Mahadev Kharade, "Green Finance for Sustainable Development- study on the Indian context", Palarch's Journal of Archaeology of Egypt/Egyptology 18(10), 2459-2466, ISSN 1567-214x.
4. Nassiry, D. (2018), "Green Bonds Experiences in Nordic Countries", ADBI Working Paper No. 816, March.
5. Reddy A.S. (2018), "Green Finance- Financial Support for Sustainable Development" International Journal of Pure and Applied Mathematics, 118(20), 645-650.
6. RBI (2019), "Opportunities and Challenges of Green Finance," Report on Trend and Progress of Banking in India (2018-19), 17-18.
7. Shen, C. Zhao, K. & Ge, J. (2020), "An Overview of Green Building Performance Database", Journal of Engineering.
8. Volz, U (2018, March), "Fostering green finance for sustainable development in Asia" ADBI Working Paper Series (814).
9. Vivek Ranaut (2021), "Green Financing in India: Addressing the Challenges Ahead", 4 (3) IJLMH, Page 1779 – 1788.

