

## Article No. 1

# GREEN FINANCE: A SUSTAINABLE SOLUTION TO THE UMPTEEN PROBLEMS OF THE NATION

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**Abstract:** Climate Change has kindled the biggest discourse of all times today the result of which is paving way for what we popularly call 'The Green Financing'. The said concept comes as music to the ears of all those who are stuck in the middle of various environmental problems and the issues of the economic sphere of the country. The Millennium Development Goals and subsequently the Sustainable Development Goals have been inducted in the country's governing policy with a view to reaching the set goals through a well-planned process that involves sustainability as the core component that forms the basis of all policy decisions in environmental as well as the economic arena taking no note of the geographical limitations.

With the passage of time, Green Financing is becoming core to India's definition of 'Growth and Development' owing to its unmatched ability to restore the natural wealth that the country has lost to the hands of humans. The concept is innovatively extending its arms to the areas of commerce and management along with engineering and technological advancements.

However, the concept remains naive and less known in the common parlance. The tree is extending its branches but we are unaware of the extent it may reach. Hence, there is a need to trace the advancements in the areas so covered by the concept of 'Green Financing' and the areas that have high potential to fall under its reach. Therefore, the object behind this research work is to extract, compile and analyse the available literature on the concept and aims at providing a model to list down the lacunas involved and to provide a solution to the same.

**Keywords:** Green Finance, sustainability, innovation, nation, financial system.

## Introduction

In today's dynamic world of innovation and ever-growing demand for the renewable and non-renewable resources, what compels us to ponder over the issue is the concern of sustainability. Resources, if defined in layman's language is anything that serves utility to mankind. Be it the basic need of food, clothing or shelter. But over the years we have taken undue advantage of the availability of nature's gifts, which has now become a serious threat to the lives of both humans and animals. Keeping the classification uncomplicated for easy understanding as (A) Exhaustible and (B) Non-exhaustible. The concept of sustainability has mainly arisen because of the fact of exhaustibility. As some resources take millions of years to replenish and mainly serve the purpose of 'one-time-use'. Therefore the idea behind the entire concept of sustainability is to develop a mantra which serves the purpose of 'multiple-times-use'. To cater to the demands of climate change which has shown its adversities in the past decade has been one of the serious concerns which has mandated the need to take strict action both at domestic and global level. This led us to welcome the dynamics of environment friendly tools and instruments in the world of commerce and management along with the technology and advance sciences. The lately introduced concept of "GREEN FINANCE" emerged in past years as a solution to the problems we face over and above nationality. 'GREEN FINANCE' has derived its meaning from two terms serving twin objectives. The term 'GREEN' and 'FINANCE' where the former relates its existence to

the environment and the latter to the economy. Merging them basically means channelizing the funds from the economy in various forms including CSR, investments, projects and multipurpose bonds to save our environment from further degradation. To look after the projects and fulfillment of the developmental goals and targets the institution playing central role is the United Nations which majorly works on coordinating the organization's environmental activities with a regulated and well-directed mechanism.

**Objective of Study:**

The objective of the research is outlined as follows:

- (1) To understand the lately introduced concept of 'GREEN FINANCE'
- (2) To identify the need for innovation in the industry of finance aligning to the climate change.
- (3) Understanding the problems resolved with this innovative monetary instrument. In India taking into account the United Kingdom policy.
- (4) Study the present scenario and the future it holds, considering the SDGs 2030.

**Research Design And Methodology:**

Data Sources	Secondary data, Research papers, government websites, articles.
Types of Research	Exploratory and Descriptive research
Area of Study	India and The United States

**Emergence Of 'Green Finance':**

Climate vulnerabilities are no hidden to us and have covered both humans and animals in its domain. Not forgetting the influence, it is creating on every country on the map is making us lose grip over the ecology. The havoc in recent decades caused by climate change has not only disrupted the natural state of the earth but has also led to extinction of many species of flora and fauna. A noticeable change in weather patterns, extreme coldness, and hotness, increased emissions of greenhouse gases, melting of sea level at a much faster pace are few of the alarms we have witnessed. To tackle all such issues of threat United Nations have launched a world scale solution. The UN has instituted UNEP (United Nations Environment Programme) which has resorted to some n-number of innovative policies and frameworks in response to the changes. This institution aims at assisting countries for the implementation of sound environmental policies. The enormous contribution made by UNEP includes The Kyoto Protocol, The Paris agreement, The Millennium Development goals, The Sustainable Development Goals etc. Efforts are not only initiated by the environmentalists but also by the policymakers and industrialists. As the domain no more confines itself to the technology and scientific advancements but also has its feet spread in the field of commerce and management. The world is now connected in the web of commerce and commerce has become an inevitable part of global functioning. The same applies to the field of economy and the financial system we are bonded in. Every sphere of the world is contributing parts of it to climate change and so is the field of commerce. Because of all such significant factors joining hands led to the inception of the concept of "GREEN FINANCE". The term originated from two terms with twin benefits. The term green here refers to the environment-friendly and finance here refers to funds. Joining together to sum up, Green Finance means to channelize

the economy's fund from the financial system without considering the bounds of the geography to the projects of sustainability and greenery in order to contribute to preserving and protecting the environment. This concept has made its place at global level and has not restricted itself to the domestic boundaries of the nations. The very first appearance made by it was in the UN Conference on Sustainable Development held at the Rio De Janeiro in 2012 with no documented definition. 'GREEN FINANCE' can also be considered as investments in assets, projects, policies for a greener world. All this is majorly done with the motive of revocation of the deterioration caused by the human hands. Additionally, this can also be considered as one among the numerous steps to retain the natural resources and aims at lesser exploitation of the natural wealth. Like all other prominent countries including the USA and the UK, India too has agreed upon doing its share in the global cause which is the immediate need of the hour.

### **Present State of 'Green Finance' in India:**

India has emerged as an active leading state contributing to Renewable energy. From expanding its renewable energy capacity to 175GW until 2022 to Installation of solar parks, solar pumps, increased wind energy generation, and reduced tariffs depicts the excellent job India is doing.<sup>1</sup> All these activities do require funding. To support these projects India has embraced the prevalent concept of 'GREEN FINANCE'. The investors intending to invest their monetary resources in 'GREEN FINANCE', are welcomed with a 100% automatic route in FDI in India<sup>2</sup> As far as the investment concerned Taiwan-based companies are keen to invest in India in electric vehicles, smart cities, and technology sectors to tap the potential created by the government's push towards these sectors. Attracted by India's green energy trajectory, LGT LightstoneAspada plans to invest up to \$50 million in Canadian firm AMP Solar Group's India unit.<sup>3</sup> World's largest solar park launched in Karnataka. The world's largest solar park set up at an investment of \$ 2.53 billion at Pavagada in Karnataka's Tumakuru district.<sup>4</sup> Although investors have to make sure of certain factors; Such investments shall align to the environment friendly application of funds thereby creating a modern financial ecosystem. Secondly maintaining the processes of manufacturing or specialized dealings should not breach the environment standards consequently not hindering the process of sustainability and economic growth. To supplement this, the commercial banks of India have shown active interest by bringing a promising change in the form of "green banks". Banks like Punjab National Bank, Bank of Baroda, Canara Bank, ICICI etc. have shown their immense interest by launching various campaigns and initiatives. ICICI alone in its project of "GO GREEN" managed to reduce its own carbon footprints by reducing paperwork by 33% consequently leaving 13,000 trees uncut. Not only this, the bank has worked for retention of ecological balance by solar electrification of villages, also with the grant of 7 million rupees ICICI led a tree plantation drive by planting 1,70,000 trees, additionally, the bank doesn't limit itself to these activities but has also introduced the "green governance" initiatives and is spreading awareness for the harms of climate changes on its level as part of CSR<sup>5</sup>. All these banks and body corporates have joined hands with the government showing a good deal of informal PPP as alone the public sector cannot fulfill the set targets of the UN because of the huge capital investment requirement. To meet such capital requirements and resolve the problems of the funding banking and non-banking companies have introduced "green bonds" as to make an attempt for a greener financial system. It is also the fourth-largest renewable energy investment market (2019) among all Climate scope countries. <sup>6</sup>

## **The Umpteen Problems:**

In the coming years, the later of the decade of 2010-2020 shall mark as the decade where 'GREEN FINANCE' entered the market and penetrated its root deeply. Although the achievements made are commendable but as they say every coin has two aspects. Solely focusing on the victory doesn't justify the argument. We cannot forget the enormity of challenges posed in front of us while this execution process began. The foremost of all was the requirement of huge upfront investments and long payback period. The wide gap between the sky-high ambition we had set to the reality that we attained has scaled up than shrinking. As they say with change comes resistance, the saying was true in case of 'GREEN FINANCE' too. Increased cost of raising capital and lowered profits have always been the matter of concern. We cannot deny that there were many structural barriers at international level that we had to face. Exchange risks, political tensions amidst the nations, project size and economic barriers removals were not a cake walk, definitely. Lack of supportive infrastructure and transparency, vague vision and red-tapism added to the problems faced. Insufficient knowledge and unclear vision itself made issuers and investors hesitant in investing. Insufficient previous performance data made it difficult to extrapolate the trend. However, all these barriers restricted 'GREEN FINANCE' in reaching to its potential yet it did not take it long to position itself in the mind of investors. The vulnerability the climate changes showed made us aware of the grip that we are losing over the environment thus urged the policymakers to bring in this concept in order to construct an environment friendly financial system.

## **Sustainable solution:**

Structural barriers for investments need to be mended by developing countries like India. These barriers can be eliminated by promoting hedging in the exchange rate mechanism to make it less risky if investments are cross-border. As cost is the factor of utmost consideration in the field of commerce and finance, where the traditional wisdom suggests that such investments are incurred on the cost of growth and profitability of anybody corporate thereby making sure that these investments do not hinder the profitability of the businesses which is the supreme motive of an entrepreneur. This can be done by issuance of such bonds at lower cost. This is made easier by introduction of "green bonds". These bonds are issued at prices lower and are pre-tax charge; the investors also tend to invest for longer duration because of less risky nature of the bonds making the cost of capital cheaper. Such innovations have fastened the pace of the "growth along sustainability" and still has a long way to go. Furthermore, these green bonds can be transformed as a tradable financial instrument; which will increase the ease of investors and will act as catalyst to its growth. Back labelling of bonds as green (i.e. conversion of existing bonds into green bonds) can also pave ways for greener market by infusing green liquidity at present without worrying of the future. Along with this, existing restrictions on capital raising for the significant cause can be reduced. The government can boost up the public faith by adopting fair and more transparent practices in the functioning of the economy. This will also reveal the funding gaps if any. Fund accumulated from pension funds; insurance sectors can be encouraged to be invested in clean technology. Portfolio investments, both for residents and non-residents can be made easier or restriction free. Moreover, government and policymakers can also resort to 'Green Taxonomy' so as to bring more green funds in circulation. Also, there seems a dire need to invest in projects that are visibly green and increase the opportunity of utilization of funds. This also means investment of funds in underdeveloped and neglected areas of economy to

bring a balance in economy along with ecology. Domestic support and technical expertise need to be expanded in order to better attain the set targets. Sectors like construction, water management, carbon sink, and transportation are worthy investments and have yielded fruitful results<sup>7</sup>. Another sustainable solution would be to categorization of sectors as priority and non-priority sectors as per the need of the capital investment.

### **Case Study:**

The United Kingdom has served as an exemplary state by putting in the rigorous efforts for attaining the globally set targets and an environment friendly economy. The UK government in collaboration with the City of London has set up a 'GREEN FINANCE' taskforce for the purpose of designing the policies and framework for the environmentally sensitive issues by the issuance of guidelines and meeting of the green norms to infuse green funds in the economy. The body established, deals in regulatory and promotional objectives with special emphasis on mobilizing green funds and assisting London in becoming the 'GREEN FINANCE' hub. All these efforts of the state have made it one among leading nations to have a successful market of 'GREEN FINANCE'. Issuer-friendly policies, easy listing process on the London Stock Exchange, the establishment of GREEN FINANCE INSTITUTE (GFI), including elements like green financing-financing green-capturing the opportunities, and strategy outlining the ways the UK will be collaborating with its international partners(gov.uk) are some key distinguishing features which helped UK justify its glorious existing globally. India has made its entry with explosive growth in this funding system; yet a lot can be learned from its fellow nations in terms of implication of policies and firm strategy building.<sup>8</sup>

### **Conclusion:**

'GREEN FINANCE' has proved its mettle in the field of commerce and finance. Nobody had known that this sooner such a concept would spread in much a faster way. The objective of sustainable economic growth seems to come true. With the end of the decade this concept has served as a boon to the financial system. This modern innovative instrument has a brighter future conditioned if the policymakers work upon the loopholes and hurdles in the way of its success. With the passage of time as awareness increase, we need to accept the fate that not only the public but the private sector also will have to contribute to saving the planet via monetary tools like 'GREEN FINANCE'. Recommendations and policies need to be firmly implemented. Timely analysis of risk and opportunities need to be made. And climate and environmental factors need to be strongly and comprehensively integrated in the Indian financial system to a lot more extent.

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