GREEN FINANCING-A FUTURE TREND

Abstract

The united nation conference held in Brazil on 20th to 22nd June 2012 with the objective of sustainable development and poverty eradication with the integration of all economic social and environment aspects together which gave a turn to a new concept i.e. Green Financing.

Green financing means to finance the projects oriented towards sustainable environment and aspects of climate change which includes projects like energy production from renewable sources such as biogas, wind, solar etc and also includes the projects that lead towards clean transportation, waste management etc.

Keywords: Green Financing, sustainable development, management, Transportation.

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I. INTRODUCTION

Financial goods, services, and investments that support projects and programs that are environmentally sustainable are referred to as "green financing". It is a fast expanding subject that seeks to address the serious environmental issues we currently face, such as resource depletion, pollution, and climate change. Financial resources are directed via green financing toward projects that advance sustainability and aid in the transition to a low-carbon and resource-efficient economy.

The idea of "green financing" came into being as a reaction to the realization that conventional financing methods frequently failed to take environmental factors into account. It recognizes that corporations, governments, and financial institutions must incorporate environmental considerations into their decision-making procedures. By doing this, green funding aids in the redistribution of funds to initiatives that benefit the environment and aid in the shift to a more sustainable future.

As per the records India is becoming a most populous country and facing a extreme pressure on climate change due to carbon intensity of India’s economy, it is the prime responsibility of the country to protect environment and safeguard forest as it is also embedded in the constitution.

II. THE IMPORTANCE OF GREEN FINANCING

The Green Financing plays a very important role due to various reasons:-

- It Encourages Sustainable Development
- Lessens Climate Change
- Generates Economic Possibilities
- Fosters Resilience
- Satisfies Investor Demand For Sustainable Investments
- Supports Governmental Objectives

Green financing is crucial. It plays a crucial part in rerouting money flows towards environmentally friendly initiatives and driving the shift to a sustainable and low-carbon future.

Ms.Nirmala Sithraman, The union Minister for corporate and Finance affairs dated 1st February 2022 gave an announcement to the government of India for planning to issue sovereign green bonds for mobilizing resources required for green infrastructure and in order to proceed with it, India issued its first tranche of its first sovereign green bond ie worth equivalent to $980 million dated January 25,2023 and also on 9th February 2023 announce the issuance of another sovereign green bond worth $968 million.

The various characteristics of Green Financing are:-

- **Environmental-Friendly:** The mainly aim of green financing is to compete with various challenges of environment such as climate changes, pollution etc and to promote sustainable development in the economy.

- **Sustainable Goals:** Green Financing is required for the alignment with sustainable goals at national as well as international goals such as the united nation sustainable goals and Paris agreement. it lead to contribute towards this goals through financing the projects for environment sustainable projects that works towards the environmental protection from natural hazards or technological impact
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- **Assessment of Environmental Impact:** The assessment and evaluation of the environmental impact of projects or activities requesting funding is a part of green financing. Investments that have a good ecological imprint or support sustainable practices are given priority based on environmental criteria.

- **Assessment of Risk:** Green financing takes into account the assessment of environmental hazards related to investments and projects. This entails taking into account elements like the effects of climate change, regulatory hazards, and reputational risks associated with environmental sustainability.

- **Designated Funding Sources:** Establishing designated funding sources or other structures to promote environmentally friendly initiatives is a common step in green financing. These could consist of sustainable investment portfolios, green bonds, green loans, green venture capital funds, etc.

- **Accountability:** Green financing places a strong emphasis on the disclosure of information on the environmental performance and results of funded projects. In order to enable investors and stakeholders to make informed decisions, it mandates that businesses and organizations disclose information about their environmental policies and impact.

- **Promotes Collaborations and Co-operation:** Green financing promotes cooperation and collaborations between financial institutions, governments, corporations, and other stakeholders. This partnership facilitates the mobilization of resources, knowledge exchange, and promotion of best practices in sustainable finance.

- **Incentives and Regulatory Frameworks:** Governmental incentives, policies, and regulatory frameworks frequently assist green financing. These may consist of financial aid, grants, tax breaks, or mandates that encourage environmentally friendly business activities and punish those that harm the environment.

To Promote Investments in Ecologically Sustainable Initiatives, a Number of Tools or Financial Products are frequently utilized in Green Financing. Among the Important Instruments are:

- **Green Bonds:** Green bonds are fixed-income financial products that were created expressly to finance green projects. The money raised from green bond sales is used to fund initiatives including climate change adaptation, energy efficiency, renewable energy, and sustainable infrastructure. Investors have the chance to assist environmental causes while receiving fixed income returns with green bonds.

- **Green Loans:** Green loans are those that are given to finance projects that help the environment. The loan's terms and conditions are set up to encourage borrowers to use the money for environmentally friendly endeavors or to fulfill particular sustainability requirements. Obtaining a green loan

- **Green Equity and Venture Capital:** Green equity investments entail buying stock or other ownership interests in businesses with an emphasis on renewable energy or environmental sustainability. As a result, investors can benefit from the expansion and prosperity of environmentally conscientious enterprises. Similar to this, green venture capital funds make investments in early-stage businesses that create ground-breaking answers to environmental problems.

- **Carbon Markets and Carbon Offsets:** By making it possible to trade carbon credits or permits, carbon markets offer a financial incentive to cut greenhouse gas emissions. Companies that emit carbon can buy carbon offsets produced by initiatives that lessen or eliminate atmospheric greenhouse gases. Installations of renewable energy, forestry programs, or energy efficiency measures are a few examples of these projects.

- **Green Insurance and Risk Mitigation Instruments:** Environmental hazards, such as climate-related catastrophes or natural disasters, are covered by green insurance products. These insurance products assist in reducing the risks connected with green initiatives, increasing their allure to investors. Additionally, financial risks connected with green investments can be reduced through the use of risk mitigation tools like guarantees or insurance policies, which promote private sector involvement.

- **Green Funds and Sustainable Investment Portfolios:** Green funds are investment vehicles that concentrate on businesses or projects that promote environmental sustainability. For the purpose of financing a diverse portfolio of green assets, they combine the investments of several different investors. Environmental, social, and governance (ESG) factors are applied in sustainable investment portfolios to direct investment decisions and advance sustainable development.

- **Green Grants and Subsidies:** In order to assist ecologically friendly projects, governments or international organizations may also offer grants and subsidies. These grants and subsidies can reduce start-up expenses or function as incentives for using eco-friendly products or procedures.

To Promote Ecologically Friendly Projects and Programs, India has a Number of Green Finance Options. Among the Important Instruments are:

- **Green Bonds:** India has seen a rise in the issue of green bonds. To collect money expressly for renewable energy projects, energy efficiency programs, clean transportation, waste management, and other environmentally friendly projects, businesses, financial institutions, and governmental organizations issue green bonds.

- **Renewable Energy Certificates (RECs):** These marketable instruments represent the environmental benefits of the production of renewable energy. They give businesses and people a way to contribute to renewable energy initiatives. Customers can reduce their carbon impact and aid India's transition to renewable energy by acquiring RECs.

- **Energy Efficiency Financing:** A number of Indian financial institutions provide specific loan packages and financing plans to support energy efficiency projects. These loans are intended to assist with, among other things, investments in energy-efficient technologies, building renovations, and industrial process improvement.

- **Loans for Sustainable Development:** Banks and other financial organizations offer loans for sustainable development that are primarily aimed at industries like sustainable agriculture, clean transportation, renewable energy, and eco-friendly infrastructure. For the purpose of promoting investments in environmentally beneficial initiatives, these loans have enticing terms and conditions.

- **Green Venture Capital and Private Equity:** Funds that invest in early-stage and growth-stage businesses developing sustainable solutions have become more prevalent in India. These funds support environmentally conscious entrepreneurs and businesses with funding, knowledge, and mentoring.

- **Government Grants and Incentives:** To encourage green investments, the Indian government provides a number of grants, subsidies, and incentives. These include capital subsidies for renewable energy projects, subsidies for rooftop solar installations, tax advantages for businesses that develop clean technologies, and incentives for energy-efficient appliances and cars.

- **Green Insurance:** Insurance companies in India offer specialist insurance plans to cover risks related to the development of renewable energy sources, the construction of environmentally friendly structures, and weather-related disasters. These insurance options aid in reducing the monetary risks connected to green investments.

- **Sustainable or Green Mutual Fund:** The various programs offered by a number of mutual fund providers in India. These funds make investments in businesses that perform well in terms of governance, social responsibility, and the environment. To match their investments with their environmental goals, investors can take part in these funds.

In 2015, Yes Bank unveiled the country's first green infrastructure bond. The government declared its intentions to issue the first sovereign green bonds in the union budget for fiscal 2023. The money from these bonds will be used to fund public initiatives aimed at lowering the nation's carbon footprint, including waste management, low-carbon transportation, and renewable energy. However, India still has a long way to go to complete the transformation to a green economy. Green projects are currently luring international investments, which in turn lower the cost of capital for the enterprises.

III. CONCLUSION

In order to solve environmental issues and assist the shift to a more sustainable economy, green financing is essential. It supports innovation, mobilizes money, and promotes the adoption of ecologically sustainable behaviors. Green financing supports a transition to a greener and more resilient future by coordinating financial decision-making with environmental goals.

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