"GREEN FINANCING: A STEP TOWARDS REALIZING THE TWIN GOALS OF GROWTH AND SUSTAINABILITY"

Dr. Pooja[#1]
*Assistant Professor, Department of Commerce,
Rajiv Gandhi Govt. College, Saha (Ambala).
e-mail: pooja18284@gmail.com

***Abstract*— Concept of green finance is advancement in the area of finance. The concept caters to a broad range of financial support for environment-oriented project, technology or businesses. Green finance is related to green environment i.e. low carbon emission. In a globalised economy, the industries and firms are exposed to strict environmental policies. The financial institutes should go green and play a pro-active role to take environmental and ecological aspects as part of their basic lending, which would force industries (their major customers) to go for compulsory investment for environmental management. Green Finance, thus, connects the financial industry, environmental improvement and economic growth and all these are backbone for country's sustenance in long run. The present paper is a theoretical paper that provides an insight about the concept of green financing and viability of green financing in India.**

Keywords - Green finance, financial industry, Economic Growth, Environmental improvement.

I. INTRODUCTION

Until recently, environmental concerns were not considered relevant to the business operation of financial institutions. However, now it is apparent that dealing negatively with environment brings risks to business. Although the financial institutions are not directly affected by the environmental degradation, there are indirect costs. Due to strict environmental laws imposed by the authorities across the countries, the industries have to follow certain standards to run their business. In the case of failure to follow the rules, it would lead to closure of the industry's leading to a likelihood of default to the financial institutions. This is from where the concept of Green finance evolved.

It's not easy to define the concept of Green finance, as there is no precise factor which gives even a close meaning. Everyone is talking about global warming these days. The concept of carbon emission has also gained importance and is a matter of concern for all the economies. The main reason for ecological imbalance is over emission of carbon in the atmosphere. This serious issue has compelled the governments all over the globe to think seriously about environmental issues for the sake of next generations. The Kyoto Protocol has led all the countries to reduce carbon emission and be more environments conscious. Thinking globally about environmental issues has shown the way to the financial sector also. The sector is coming with various new environmental issues such as green funding or green investment or green technologies.

Various Risks associated with Financial Institutions that have inclined the institutes towards Green Banking:

A. Reputation Risk

Reputation risk refers to the risk of financing ecologically and ethically questionable projects. Due to growing awareness about environment safety, financial institutions are more prone to lose their goodwill if they are involved in big projects that are viewed as socially and environmentally damaging.

B. Legal Risk

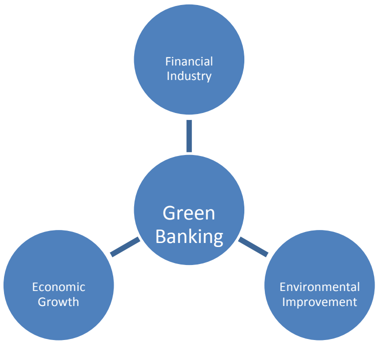
Financial Institutes also like other companies are at legal risk if they themselves do not comply with relevant environmental legislation. They are also bound to cope with the environmental laws.

C. *Credit Risk*

Credit risks are a risk that may arise due to the customer default as a result of uncalculated expenses for investment due to environmental change. It can also arise where financial institutions lend to customers whose businesses are adversely affected by the cost of cleaning up pollution or due to changes in environmental regulations. Further, credit risk can cope up because of risk of loan default by debtors due to environmental liabilities i.e. fines and legal liabilities which will lead to reduced priority of repayment under bankruptcy.

The adoption of green banking strategies will help the financial institutions to deal with these risks involved in their business operation. Green banking strategies involves co-ordination of three components:

1. Financial Industry
2. Environmental Improvement
3. Economic Growth



II. THE INTERNATIONAL SCENARIO OF GREEN BANKING

The financial sector's growing concern to environmental management system is attributed to the direct and indirect pressures from international and local Non Governmental Organizations (NGOs), multinational agencies and in some cases through up taking of profitable environmental projects. In the early 1990s, the United Nations Environment Programme (UNEP) was launched which is currently known as the UNEP Finance Initiative (UNEPFI). The objective is to put together the environmental and social dimension into the financial performance and reduce risk associated with it in the financial sector. As the commitment of this UNEPFI statement goes, sustainable development is regarded basic to the sound business management. It advocates for a precautionary approach towards environmental management and suggests integrating environmental considerations into the regular business operations, asset management, and other business decisions.

All the international initiatives towards integrating environmental concerns into business operation of financial institutions are deliberate in nature and are meant to promote a better ecosystem. Demand for green money is a precondition of green banking if it will be voluntary. A government legislation that makes financial institutions answerable for the misdeeds of their clients will help promote green banking in a real sense.
As long as the world's energy needs keep growing at a feverish pace, the future outlook of clean energy investments will continue to burn brightly. According to projections by the International Energy Agency (IEA), in the absence of an overhaul of regulatory policies by governments worldwide, demand for primary energy will increase by 40% between now and 2030. Non-OECD countries will account for over 90% of this increase, and China and India together for over half.

According to the Chinese government's forecasts, the country's demand for electricity is expected to double by 2020; with the IEA estimating that China will pass the United States around 2025, becoming the world's biggest spender on oil and gas imports to meet its burgeoning energy needs. No wonder, already in 2009, China replaced the United States to emerge as the leader in clean energy finance and investments for the first time.

This trend is only expected to continue with China leading the way in attracting clean energy investments in the near future. Along with China, India, Japan and South Korea will account for the lion's share of investments in 2020 with the Americas and Europe trailing. While the United States will lose its leadership position, it does maintain the potential to attract $342 billion in private clean energy investments over the next decade. Similarly, given its early leadership in clean energy development, the European marketplace is expected to mature, with growth opportunities strongest in Southern Europe and offshore wind.

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III. GREEN FUNDING

The Green projects, green industries and technologies require different levels of funds from different sources of capital such as Inland public finance, international public finance and finance from private sector. Inland public finance means direct funding by a government while international public finance refers to funding from international organizations and multilateral development banks where as finance from private sector is a combination of both domestic and international funding sources.
All green industrial projects are based on new innovations or new theories that are untested or unconventional and require huge monetary investment. Therefore, traditional finance industry may find it difficult or commercially unattractive to finance these green industrial propositions. Thus the green funding requires changes in the industry as well as environment. An integration of various components is necessary to make green finance a real concept.

a) Financial industry needs to develop new financial products (green financial products) with focus on investing in green industries and technologies.
b) Environmental improvement can be achieved through strong legislation for better environment and actively trading carbon market.
c) Economic Growth with special attention to Eco - friendly industries and development of renewable energy technologies

Innovations are still going on to cater the needs of green finance concept and making its presence around the world. The green financial products that are essential to be studied and created are divided into four major financial areas-

1. Retail Finance including Green Mortgage, Green Home loan, green commercial Building Loan etc.
2. Asset Management including Eco Fund, Carbon Fund etc.
3. Corporate Finance including Green Project finance, green leasing, carbon finance etc
4. Insurance including carbon insurance, auto insurance etc.

IV. INDIA AND GREEN FINANCE

The India is on a higher growth path for last decade and the industrial sector plays the most important role in India's growth story. However, Indian industry faces the challenges of controlling environmental impact of their business i.e. reducing pollution. Though government has been trying to address the issue by framing environmental legislations and encouraging industry to follow environmental technologies and products but still much more growth is required in the field of green financing.

It is significant to relate green finance with India, as the country have the benefit of vast natural resources which can be converted into renewable energy resources. A renewable energy resource is the vital element of green finance and needs to be taken care of sincerely by the government. Several measures have been taken in the past by the Government of India to enhance the potential of renewable energy resources like- establishing Indian Renewable Energy Development Agency under Ministry of New and Renewable Energy or MNRE in the year 1992.

But the concept of Green Finance is still under its way to be known by the corporate houses due to lack of information and cost involved in it. For a long time, financial institutions were shy to lend to renewable sector. There were perceived technological risks as well as risks associated with lack of fuel supply arrangement in the case of biomass and municipal waste. But due to growing awareness, government's changing priorities and the inevitability of renewable to supplement India's energy mix, the financial institutions are increasingly funding these projects.

V. CONCLUSION

Apart from the above measures taken by the government and other sectors in India, it is necessary to follow the green product structure. The banking and financial sector should be made to work for sustainable development. It is time now that India takes some major steps to gradually adhere to the equator principles-guidelines that use environment-sensitive parameters, apart from financial, to fund projects. Thus, it can be concluded that India has a potential to create a green infrastructure needed for green finance by overcoming the barriers and generating awareness among the citizens and corporate houses.

Whichever way you look at it: green financing offers the right answers to the challenges of rising global energy demand, limiting the use of fossil fuel and depletion of natural resources. By tapping renewable energy sources and other environmentally-friendly technologies, it not only facilitates sustainable socio-economic growth but also offers an attractive opportunity to investors around the world. Increasing environmental consciousness across the globe and government support will keep the spotlight on clean energy, driving it into the mainstream in the foreseeable future.

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