

## "Green Finance": A Powerful Tool for Sustainability

Keshav Mishra<sup>1</sup> and Arjun Kannaujia<sup>2</sup>

<sup>1</sup>Research Scholar, Department of Commerce, Dr. Ram Manohar Lohia University, Ayodhya, Uttar Pradesh, India

<sup>2</sup>Research Scholar, Department of Commerce, Lucknow University, Lucknow, Uttar Pradesh, India

<sup>2</sup>Corresponding Author: kannaujia.243@gmail.com

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### ABSTRACT

The day when all organizations across the world operated only for financial gain is long past. Natural resource preservation and environmental protection are becoming increasingly important in all spheres of life today. Continuous research has been done worldwide to identify novel approaches for achieving sustainability. In order to safeguard the environment, mitigate the impacts of climate change, invest in renewable energy sources, increase the amount of green space, and support other sustainable development initiatives, financial aid is known as "green finance." This article examines the components of green financing, including green banking, green insurance, and green bonds. Additionally, it assesses the possibilities and difficulties for green finance with the aid of current literature and efforts to offer fresh information regarding Green Finance as a useful instrument of Sustainability in developing nations like India.

**Keywords:** green investment, products, sustainable development, bonds

## I. INTRODUCTION

Because of growing issues like depletion of the ozone layer, global warming, rising pollution levels, fierce competition for finite non-renewable energy sources, and other environmental issues, the need for environmental protection and the preservation of natural resources is receiving more attention from all stakeholders. A balance between nature and economy is what green finance aims to achieve. Although there is no precise definition of "green finance," any financial aid given for initiatives with the main goal of promoting sustainability, such as the development of green structures, effective energy and waste management, the preservation of ecosystems, projects involving renewable energy sources, and related initiatives, can be referred to as "green financing." The obligations under these initiatives cannot be met with investments from the public sector alone. To fulfil the growing need, cross-border investments and private sector initiatives should be promoted.

To address the issues associated to raising and the use of those money, appropriate regulatory framework and policy measures are necessary. Unfortunately, funding for the production of renewable energy, management of energy efficiency, and green investment opportunities are not prioritised due to low awareness, fossil fuel subsidies in different nations, the bias of low returns, fear of trust breaches, mismanagement of invested funds, and other similar factors. There are no suitable steps made to integrate this method since finance and the environment are viewed as two distinct spheres. One of the three long-term aims of the 2015 Paris Agreement, along with limiting the increase in the average temperature worldwide and enhancing the capacity to adapt to the effects of climate change, was the financial element. Through international agreements, political measures, and placing them under the appropriate regulatory framework, steps must be taken to merge these two components.

In this essay, an effort has been made to assess the value of environmentally friendly financing as a tool for sustainability as well as the potential and difficulties that come with combining the financial and environmental perspectives in India.

## II. LITERATURE REVIEW

The literature review, which is a key component of the research project, aids in comprehending the prior research that has been done on the subject and provides the framework for formulating and analysing the research problem. It also enables us to understand the scope and constraints of the prior research and provides insight into areas that were unexplored by earlier researchers.

Dipika (2015) looked at the rise in emphasis that stakeholders and business organisations are placing on environmental preservation and sustainable development. The study came to the conclusion that green banking promotes

environmental protection and economic prosperity. Thus, as a component of sustainable development, green finance need to be prioritised.

**Dr. Karthrin Berensmann (2016)** talked on the importance of key players including banks, institutional financiers, and financial institutions around the world in advancing the advancement of green finance. The study's authors came to the conclusion that the tenaciousness with which the aforementioned players advance the advancement of green finance will have a significant impact on the extent to which which the high-level climate and environmental sustainability goals may be accomplished.

**Sharif Mohd et al. (2018)**, India has a great potential to develop the green infrastructure required for green finance. They also discussed the various green financing options available and the sustainability programmes being implemented in India. They investigated the role performed by sustainable finance as a solution to bring unity between both the environment and the economy.

**Jeffrey D. Sachs (2019)** As a result of his analysis came to the conclusion that green financing, which includes green projects, investments that are environmentally friendly, green banking, financial technologies, etc., needs to be accelerated in order to achieve the objectives of sustainable development

**Wang(2020)**. To support the government's direction and support for the sector, expanding the green industry's investment and financing channels is a crucial step in the creation of a green economy.

**Prajapati ( 2021)**. To assist sustainable development, all financial institutions were required to offer eco-friendly goods. The UN SDGs will be more easily attained with the aid of this investment approach, particularly SDG 7 (cheap and renewable energy), SDG 8 (decent job and growth in the economy), SDG 9 (industry, creativity, and technology), and SDG 13 (climate action).

**Denial (2022)** Green financing may thus be utilised to achieve complete green growth since it helps to reduce and build up flexibility against the negative effects of environmental changes. tion).

### **III. RESEACH OBJECTIVE**

- To explore the various components of green finance that assist in achieving sustainability objectives.
- To assess the many green funding options available
- To evaluate the advantages and challenges of green finance.

### **IV. RESEARCH METHODOLOGY**

The study paper's style is descriptive. The information is gathered from secondary sources that have been made publicly available through papers, journals, research publications, and websites

#### **Green Finance's Meaning**

Green finance is a useful instrument for striking an equilibrium between economic growth and the environment. Furthermore, supporting or offering financial support for initiatives and programmes that promote sustainable development is at the core of it all. Meaning regarding environmentally friendly development: It refers to all efforts undertaken to establish balance between environmental and development-related factors. This idea seeks to safeguard natural resources in order for future generations to benefit from them.

### **V. GREEN FINANCE AS A POWERFUL INSTRUMENT FOR SUSTAINABILITY**

By supporting initiatives that support sustainable development, green financing contributes to the symbiosis of sustainability, finance, and development. Thus, it aids in the preservation of natural resources, promotes the use of renewable energy sources, and works to lessen human exploitation of the environment. As a result, it serves as a useful instrument for achieving sustainable development objectives.

#### **Green Finance's Coverage Area**

##### **Green Banking**

It deals with promoting environmentally friendly behaviours through financial activity. The financial industry and nature both benefit from green banking since it aids in environmental conservation. It functions by fusing operational innovations, shifting stakeholder expectations, and technology advancements. States Bank of India, Punjab National Bank,

Bank of Baroda and Canara Bank, ICICI Bank (India) Ltd, DFC Bank Ltd, Kotak Mahindra Bank, Indusland Bank, YES Bank, HSBC Group, IDBI, etc. are Indian banks that offer green banking services to its clients.

The following list outlines the many methods employed in green banking.

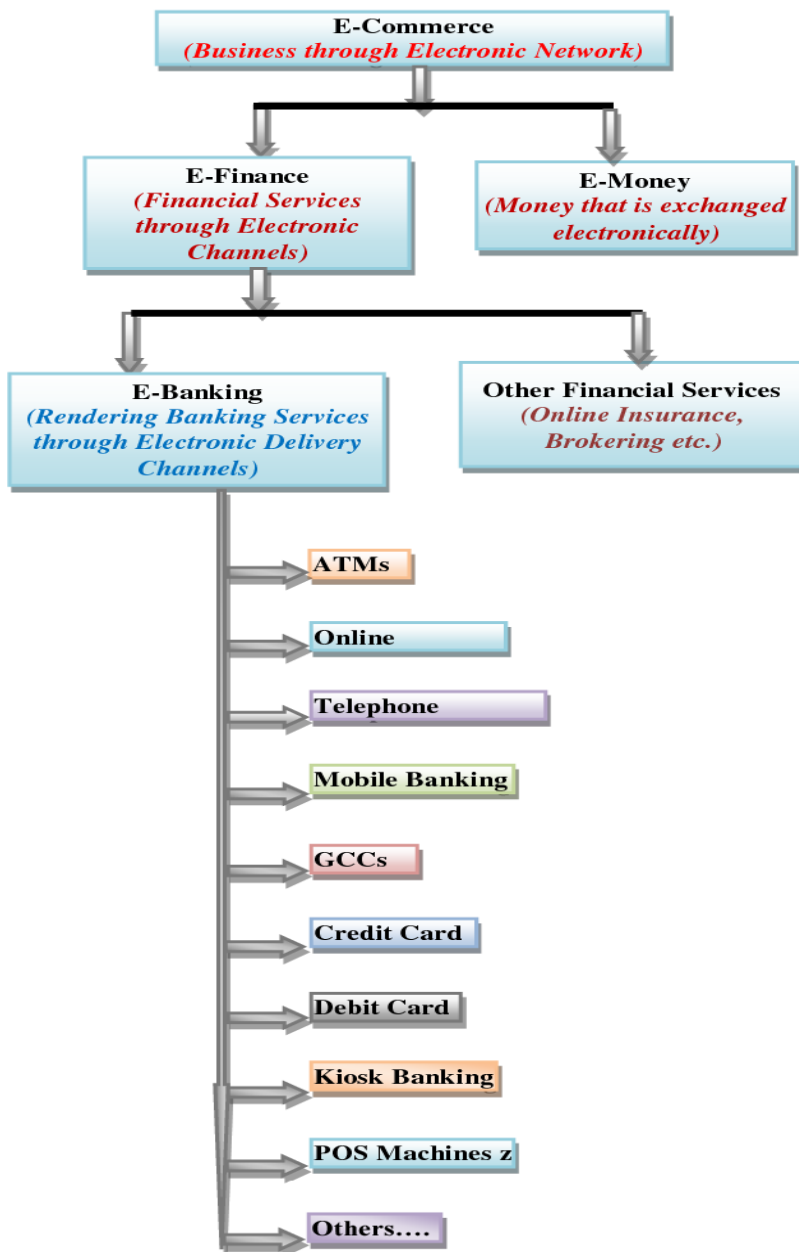


Figure 1: (Green Banking Services)

**Green Insurance**

As a part of the green financial sector, the insurance sector is crucial to achieving sustainability objectives. Although the insurance sector hasn't directly contributed to environmental degradation and hasn't helped to draught regulations addressing these issues, it serves as the backbone of green financing by disseminating information about risk management and significantly reducing the risk associated with its different approaches and its underwriting business.

As of FY 2022–2023, the Insurance Regulatory and Development Authority of India (IRDAI) will offer a 15% discount on Third Party (TP) premium rates for insurance of private electric cars.

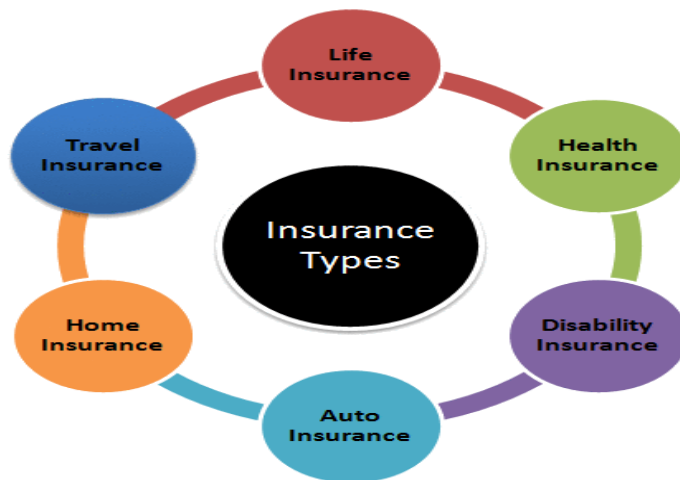


Figure 2: Types of Green Insurance

### Green Bonds

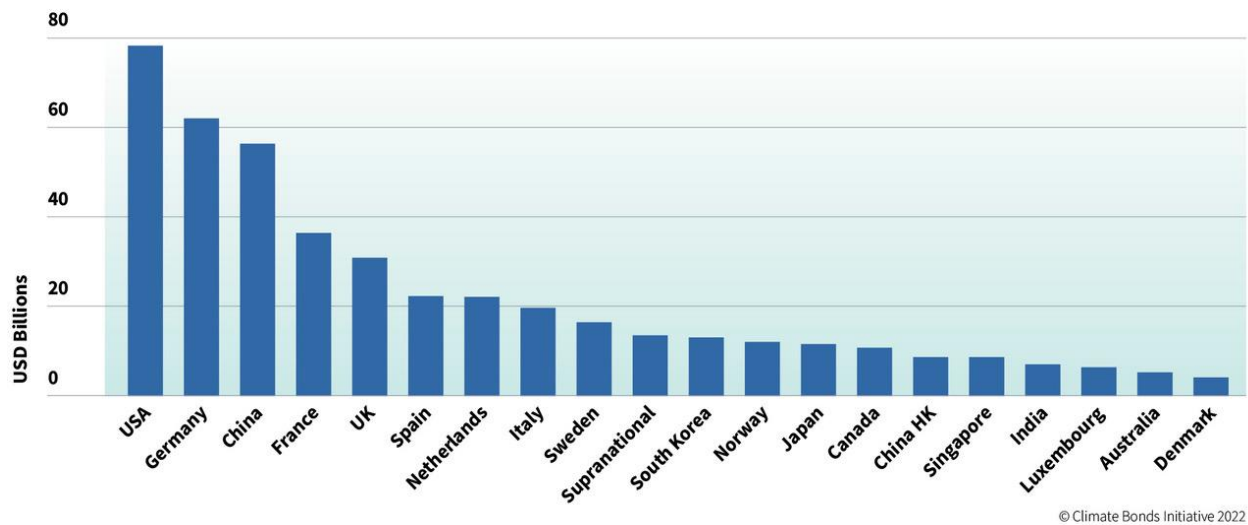
Here, the bond's issuer makes a commitment to use the bond's profits to finance environmentally friendly assets or business ventures, such as reforestation, climate-related projects, energy-efficient goods, and commercial operations. It is necessary to use a balanced strategy that takes into account both the right distribution of funding to environmentally friendly projects and the risk and return associated with the bonds. When a firm or financial institution issues a green bond, it improves its reputation with the public and gains access to a pool of potential investors who are committed to buying only green investment products. In addition, it supports those investors who desire to fund socially conscious endeavours, satisfying their desire to Investing and social responsibility should be combined.

The European Investment Bank and the World Bank initially released green bonds in 2007. Later, individual businesses, banks, and financial organisations began issuing green bonds. The instruments and Exchange Board of India (SEBI) has published rules for the listing and issuance of various debt instruments in India. According to SEBI regulations, the earnings from such bonds should be used to fund environmentally friendly efforts, such as the use of renewable energy, combating climate change, protecting biodiversity, lowering pollution levels, managing trash, etc.



Figure 3: Types of Green Bonds

### Top Twenty Countries



**Figure 4:** Major emerging markets for Green Bonds Issuance 2022-2023 (US\$ Billions)  
**Source:** Emerging Market Green Bonds Report 2022

Economic Survey 2022-2023 has reported that India has emerged as the seventeenth -largest green bond market next to Singapore with transactions amounting to \$10.3 billion in the first half of 2022.

## VI. THE POSITIVE BENEFITS OF GREEN FINANCE

- Sustainable energy management: Under green finance, cash is made available for initiatives targeted at decreasing energy waste as well as a variety of incentives for installing and utilising renewable energy sources. Consequently, effective energy management is possible.
- Promotes reputation: As more stakeholders want to improve society through their financial contributions and so carry out their social responsibility activity, they will give precedence to businesses that take steps to protect the environment. Even the government offers financial aid for environmentally beneficial initiatives. Therefore, long-term reputation building and enhancement for the organisations will be facilitated by green finance.
- Aids in bringing FDI: Environmental protection issues are becoming increasingly important in all corners of the world. As a result, while making investments in local businesses, international investors will weigh the societal costs and benefits when evaluating the projects. The issuance of green investment instruments would therefore encourage foreign direct investment in our nation.
- Protection of the environment: Since supporting initiatives that promote sustainable development is a key component of green financing, safeguarding the environment is a crucial component of the funding. Therefore, this idea will aid in lowering pollution levels, adjusting to climate change, minimising ozone layer thinning, conserving biodiversity, etc., all of which are crucial for the existence of living beings.

## VII. GREEN FINANCE'S LIMITATIONS

- Description confusion: Green finance has no accepted, agreed-upon definition. Due to uncertainty caused by the lack of definition clarity, it will be challenging for investors to select the best green projects, which will act as a barrier to making investments in green projects.
- Insufficient knowledge: Despite the fact that some stakeholder groups are becoming more amenable to eco-friendly investments, many others are unaware of the idea of green finance in general. The capital development in green investment goods will be less than is necessary due to a lack of knowledge and awareness. As a result, there will be an imbalance between the supply and demand of funds.

- Create unfavourable competition: Market players will unfairly capitalise on the rising demand for green investment goods in an effort to increase their market share by referring to green initiatives. This will promote unhealthy rivalry and, in the end, neglect the idea of sustainable growth in favour of immediate financial gain.

## VIII. RECOMMENDATION

- People education: Government, financial institutions, banks, and corporate organisations should take the initiative to inform the people about the value of environmental protection and the vast range of green investment options available. To create cutting-edge goods that draw investors and at the same time support environmental development, technology and finance should be merged.
- Creating an appropriate regulatory framework: An appropriate regulatory framework is required to assess projects involving green finance and to safeguard investors' interests. The governing bodies must make sure that each project's finances are exclusively used for their intended purposes.
- Strict legislation must be implemented in order to punish those in the market who are unfairly taking advantage of the expanding demand for environmentally friendly initiatives. Separate laws must be passed to govern the misuse of finances. The utilisation of funds obtained should be a focus of the law. If rules are broken, the appropriate measures must be implemented.
- Supporting research: Steps should be taken to promote research in the area of green financing, which will integrate financial and technological developments and aid in the development of novel green investment products, successful green projects, and appropriate policy measures essential for full development and growth.

## IX. CONCLUSION

The current situation calls for sustainable development, and green financing, an efficient tool for sustainability, is acquiring increasing significance. Beyond risk and rewards, investors are increasingly considering their social responsibility.

Numerous opportunities in the field of green finance have emerged as a result of increasing funding for green initiatives and growing public awareness of the need of safeguarding the environment. To define green finance accurately, policymakers, researchers, environmentalists, the government, investors, and financial firms must collaborate. For the purpose of evaluating green projects and ensuring that investors are not duped by the term "green," an appropriate regulatory framework must be established. India should use green funding to focus on producing renewable energy, safeguarding natural resources, managing energy effectively, adopting a climate-friendly lifestyle, and other ecological challenges. Thus, it can be argued that green money will function as an efficient instrument for sustainable development provided it is managed appropriate.

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