

Green Finance In India: Current Progress And Emerging Challenges

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ABSTRACT:

Current trends in green finance, both in India and throughout the world, are covered in this study. To gauge public knowledge and potential funding sources for environmentally friendly initiatives, researchers have drawn from a wide range of data sources. Even though public awareness and funding options in India have improved, the study suggests that more equitable data distribution through enhanced information management systems and closer stakeholder collaboration could eventually lead to more environmentally friendly and sustainable economic growth.

KEYWORDS: Green Finance, Sustainability, Public policy, Green lending, Green bonds, Borrowing costs, Information asymmetry.

1. INTRODUCTION

To attain the objective of a low-carbon economy, green growth considers economic and environmental harmony. Green finance, in its most basic definition, is a kind of sustainable finance that is tailored to the needs of ecologically conscious and climate-responsive initiatives. Green building, energy-efficient transportation that reduces emissions of greenhouse gases, and waste management that incorporates recycling, energy conversion, and efficient disposal are all examples of environmentally sustainable projects.

In accordance with the disclosure requirement of Green Debt Securities, sustainable water and waste management, climate change adaptation, protection of biodiversity and sustainable land use (including agriculture and forestry) are all examples of projects that are to be considered sustainable. Green bonds, carbon market instruments such as carbon taxes, among others, the new financial

instruments introduced to meet financial requirements of the development of these environmentally friendly projects. In addition, new kinds of financial institutions such as green banks and green funds also appeared. These new financial vehicles combined form the green finance.

"Green finance" refers to a new trend that merges the concepts of "finance" and "business" with an emphasis on sustainable practices. The support of businesses and activities that might harm the environment, both now and in the future, is at the heart of green finance, which aims to counteract the harm that rapid economic growth does to the environment. Environmental degradation, pollution, and contamination are major health risks to the general population as well as barriers to long-term economic growth. We must take the lead in diverting capital away from polluting conventional businesses and toward more eco-friendly ones if we are serious about promoting ecologically sustainable enterprises. Most nations have established goals and strategies

including corporations, governments, and central banks to attain these aims of economic development.

2. The Indian Government's Approach to Green Finance:

Green financing has been on the agenda of India since 2007. Climate change and global warming have been subject of a notice issued by RBI in December 2007, Corporate Social Responsibility, Sustainable Development and Non-financial Reporting - Role of Banks, in relation to sustainable development. In order to define the overall policy framework for the reduction of impacts of climate change, the National Action Plan on Climate Change (NAPCC) was developed in 2008. Within the Ministry of Finance, India established the Climate Change Finance Unit (CCFU) in 2011 to track the green finance programs in various entities in the country. The introduction of the sustainability disclosure criteria was the largest strategic initiative since 2012. However, it was updated periodically by SEBI since the year 2012 when it mandated top 100 listed businesses by market capitalization at BSE and NSE to post annual corporate responsibility reports.

In India, there have been a number of financial and fiscal incentives. In the majority of Indian states, the government subsidizes rooftop solar panel installations by 30% for institutional, residential, and social sectors. Some states that fall under the special category are eligible for subsidies of up to 70% of the installation cost. These states include Uttarakhand, Sikkim, Himachal Pradesh, Jammu & Kashmir, and Lakshadweep as of May 2019. On top of that, if the recipients' annual production surpasses 1100–1500 kWh, they may sell the extra electricity at a rate established by the government and earn an incentive of around 2 rupees per unit of generation (the exact amount varies by

state). Phase one and two of the scheme of the Indian government to accelerate the production and distribution of hybrid and electric vehicles began in 2015 and 2019, respectively. The price of the cars has been reduced, infrastructures have been established to facilitate the manufacturing and sales of green cars, and these have all been done to facilitate the flow of finance. To make up for the huge initial investment needed to buy an EV, the State Bank of India has initiated a 'green car loans' scheme wherein an interest rate discount of 20 basis points and an increased payback period will be given as compared to the standard car loans. In order to generate high efficiency renewable energy modules the government has also declared a Production Linked Incentive Scheme (PLIS).

The Reserve Bank of India has initiated a number of policy measures to promote and support green financing projects. In 2015, it extended its Priority industry Lending Scheme to cover the small renewable energy industry. Under this scheme, companies working in the renewable energy industry will be allowed to avail up to 30 crore rupees and individuals will be allowed to avail up to 10 lakh rupees to invest in renewable energy. The Indian government has announced a target of 450 GW of renewable supply by the year 2030 in September 2019.

3. The State of Green Financing in India and Its Obstacles

Advancements in public consciousness:

To put it simply, traditional sources of information on people's knowledge of green finance and sustainable development are severely lacking. But if you want to see how people in various places are using Google at different times, you should check out Google Trends.

Chart 1:

**Green Financing and India's Comparative Score:
 A Google Search**

Chart 1 shows that India's Google search volume for climate change and green financing is on par with those of developed and major developing countries. As you can see from the graph, India's comparative score is better than that of the developed world. In order to normalize, we first set the most intense search for one nation to 100 and then modify the other countries' intensities proportionally. Chart 1 shows the nation scores as an average of these five keywords' scores, with the weights representing the proportion of all searches for each keyword relative to the total number of searches for all five terms.

Eco-Friendly Loans:

	Public Sector Banks	Private Sector Banks	Foreign Banks	All Banks
Amount outstanding (Rs. Cr.)	21.655	12.302	2.586	36.543
As per cent of power sector credit	6.2	11.9	27.1	7.9
As per cent of total bank credit (excluding personal loans)	0.5	0.5	0.7	0.5

Note: Excludes Regional Rural Banks and Small Finance banks
 Source: BSR, RBI, Authors, calculations

Green Bonds:

Green bonds are bonds that are issued by corporations, intergovernmental organizations or alliances, or sovereign organizations with the intention of using the bond profits for ecologically friendly initiatives.

Since 2015 India has been issuing such green bonds. Green bonds have an outstanding value of \$16.3 billion as of February 12, 2020 in India. As of March 2020, more than 7.9% of the outstanding bank credit to the power industry is to non-conventional energy and as of January 1, 2018, India

The Reserve Bank's Database on the Indian Economy, which includes publicly available information on policy rates, aggregate and sectoral credit, and important financial ratios, has details on India's Scheduled Commercial Banks (SCBs). To better advance green finance, the Reserve Bank expanded its Priority Industry Lending (PSL) program to include small renewable energy companies in 2015. As of March 2020, banks owed about Rs. 36,543 crores to the non-conventional energy sector, which accounted for 7.9% of their total bank debt to power generation, up from 5.4% in March 2015. The degree to which commercial banks in India's major states and bank groupings were exposed to the unconventional energy sector varied.

has issued green bonds of nearly US\$ 8 billion, which is around 0.7% of all the bonds issued in the Indian financial market. India still remained in a good position as compared to some number of developed and developing countries, though things are not so good that the value of green bonds issued in the country since 2018 was a tiny fraction of the overall bond issuance..

4. Obstacles and Next Steps:

Green finance is undeniably benefiting from the integrated policy approach. The largest barriers

may be high borrowing costs, false claims about environmental compliance, disparate definitions of green loans, and investors' comparatively short-term interests compared to long-term green investments, despite advancements in public awareness and funding options in India.

The cost of issuing green bonds in India has consistently been greater than that of other bond kinds. Companies and government agencies in India's public sector often issue green bonds when they're in a stronger financial position. Possible causes for the greater cost of borrowing green bonds in India include governance problems, asymmetric information, and increased risk perception. It is apparent from the available data that green initiatives often have a high initial investment with some aspects of cost savings having a longer payoff period. Due to information asymmetry and a lack of consensus definition on the meaning of "green finance", "green washing", in which investors are led astray through misleading claims made regarding green bonds, is a common problem.

Because of the size of the domestic market, and relatively low penetration of green instruments, there are lots of potential opportunities missed. Policymakers should expand the corporate bonds market, standardize the vocabulary of green investment, require uniform corporate reporting and eliminate information asymmetry between investors and receivers to address the shortcomings of green financing sector.

5. CONCLUSION

As a matter of public policy, green financing is quickly rising to the forefront. If we look at how green finance has evolved in India over the last several years, we can see that both public awareness

and available funding have grown significantly. Sustainable long-term economic development may be possible with improved information management systems and more cooperation amongst the stakeholders if the information asymmetry around Green Projects is reduced.

There has been a significant negative effect on global economic development over the last fifteen months due to the COVID-19 pandemic, which has affected every country in the globe, including India. However, as the COVID-19 pandemic has proven, development must be inclusive and sustainable if it is to endure. The stakeholders may take advantage of the crisis to reevaluate their policy, financial, and operational plans, and adopt a more sustainable strategy going forward. The Prime Minister recently unveiled a unique economic package for "Atma Nirbhar Bharat" (self-reliant India) with a budget of INR 20 lakh crores; this would greatly facilitate India's integration with the global community. Nevertheless, India will now have a chance to green its economy in areas that will have the most influence on sustainable development thanks to the recovery packages offered by this epidemic. In order to recover economically from this crisis, India must prioritize both sustenance and sustainability. An essential tool that may help bring about this change towards long-term economic prosperity is green financing.

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