



# STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

*To kindle interest in economic affairs...  
To empower the student community...*



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## GREEN FINANCE



**MAY2018**

Theme 318

**“GREEN FINANCE”**

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Theme No: 318 : **“Green Finance”**

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A well informed customer will make the policy makers as well as organizations which produce goods and render services more responsive to the customer needs. This will also result in healthy competition among organizations and improve the quality of its products.

The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly meeting of the “Forum”. This month the topic for discussion is “Green Finance”.

The Banking sector is the backbone of any economy. It has a direct impact on the country’s economic growth and development. However in order to achieve sustainability in economic growth the philosophy of Environmentalism plays a very crucial role. Therefore, with increasing environmental concerns both at national and global level it has become important for the finance sector to become responsive to these environmental issues. This gave rise to the concept of Green Finance which is an innovation in the field of finance.

Green financing or financing for sustainable and renewable projects is gaining huge significance globally and among the investors for making investment in a project, if the same is certified as green. To standardize the green finance activity the regulatory authority should have uniform Environmental, Social and Governance (ESG) practices across banking and finance to create a level playing field. ESG measures sustainability and ethical impact of an investment in a company. Before making investment the investors look at the ESG Score. The score of the project tells its impact on climate and how a change in environment would change the future of the project. It will also be a critical evaluation factor for sanctioning the loan. Given the rapid change in climatic conditions, the score is going to be a global standard measure and India is moving to develop its own yardsticks.

## **What do you mean by Green Finance?**

Green finance is a broad term relating to investments or lending to sustainable development projects and initiatives, environmental products, and policies that encourage the development of a sustainable economy.

In other words, Green Finance involves lending or making investment in environmentally sustainable products and projects which aim at reducing or avoiding greenhouse gas emissions, controlling industrial pollution, water sanitation, waste management and overall biodiversity protection. It also includes green investments i.e. the stocks, exchange traded funds and mutual funds of the companies whose operations aim at improving the environment.

## **Briefly explain the Green Financial Products and Services in India.**

**Green Bonds:** A bond is a debt instrument with which an entity raises money from investors. The bond issuer gets capital while the investors receive fixed income in the form of interest. When the bond matures, the money is repaid.

A green bond is very similar to a debt instrument which has characteristics similar to that of a standard coupon bond but the difference is only that the issuer of this bond publicly states that capital is being raised to fund 'green' projects and the proceeds from this bond will be utilized in energy efficient projects relating to renewable energy, emission reduction, reforestation, etc.

**Green Insurance:** Green insurance schemes are those schemes which provide higher risk cover at a low premium for green products which minimizes the impact on climate, fostering good corporate behavior.

**Green Loan Schemes:** Green loan schemes are the financing schemes offered by commercial banks and financial institutions at concessional interest rates for providing support to investment in energy efficient projects. Green Home Bank loan scheme is offered at low interest rates to encourage the customers to opt for Green housing i.e.. the buildings that are certified by rating agencies such as Leadership in Energy & Environmental Design (LEED) India, India Green Building Council (IGBC).

Banks offer medium term loan schemes to farmers for construction of green houses, setting up of biogas plants, sanitary latrines etc.

## **What are the recent developments in the Green Banking initiatives by banks in India?**

Ensuring environment friendly practices in the banking sector and thereby reducing internal and external carbon footprints is Green Banking. Banking industry is generally considered as non-polluting industry. However it has impacts on the environment in terms of increasing energy consumption, paper consumption etc. In banks, emerging technology contribute to a great extent towards green banking initiatives through a reduction in the use of paper and printouts, increased use of digital payment using less energy.

Banks have launched Green Pin facility under which the Pin can be generated through ATM, internet banking, IVR and SMS. This would save the customer efforts and time for visiting the branches and help the bank in saving the costs on courier and stationary.

Through mobile apps customer can locate the ATM, lodge complaint on operational aspects and can transact the basic banking facility also. Banks provide e-lock facility to block and unblock internet banking, mobile banking and ATM transaction through Mobile Application as well as SMS.

## **How is the Green Financing in India promoted by the regulatory authority?**

In recent years the Reserve Bank of India (RBI) has included lending to social infrastructure and small renewable energy projects within the priority sector targets, thereby, giving a boost to green financing. In the renewable energy segment, bank loans of up to Rs.15 crore for solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, etc. is considered part of PSL (Priority Sector Lending). For individual households, the loan limit will be Rs 10,00,000 a borrower.

The Securities and Exchange Board of India (SEBI) has put in place the framework for issuance of green bonds and the listing requirements for such bonds. In 2015 India entered the green bond market with a total of US \$1.1 bn of green bonds issued by a handful of pioneer issuers.

## **Briefly explain the government initiatives taken for Green Finance.**

The clean energy cess imposed on coal mines in India strengthens the

‘National Clean Energy Fund’ set up for funding research and innovative projects in clean energy technologies. The Government of India has kept a plan outlay of Rs 10,317 crore in the annual budget plan for the year 2018-19 towards utilizing new and renewable energy resources for supplementing energy requirements of the country in an eco-friendly and sustainable manner.

The Companies Act, 2013 mandates that larger companies should contribute at least 2 per cent of their average net profits annually towards Corporate Social Responsibility (CSR) activities, which contributes to green financing. Government has launched a specialized niche funds / schemes such as Textile Upgradation Fund, Credit Linked Capital Subsidy Scheme, and Tannery Modernisation Scheme with a desire to move Indian enterprises towards cleaner production.

### **What is the future scope of Green Finance in India?**

As per the India’s National Action Plan on Climate Change the country should generate at least 15% power from renewable energy resources by 2020.

Environment sustainability being a key issue at global level has increased the scope for investment in green projects utilizing renewable energy resources. Therefore, many banks and financial institutions would look forward to tapping this growing sector. Thus, there will be increase in demand for Green bonds and structured green funds.

Green finance is a core part of low carbon green growth because it connects the financial industry, environmental improvement and economic growth of the country. The main challenge in green finance is to balance the needs of economic growth and social development, while taking decision on finance with least environmental impact.





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