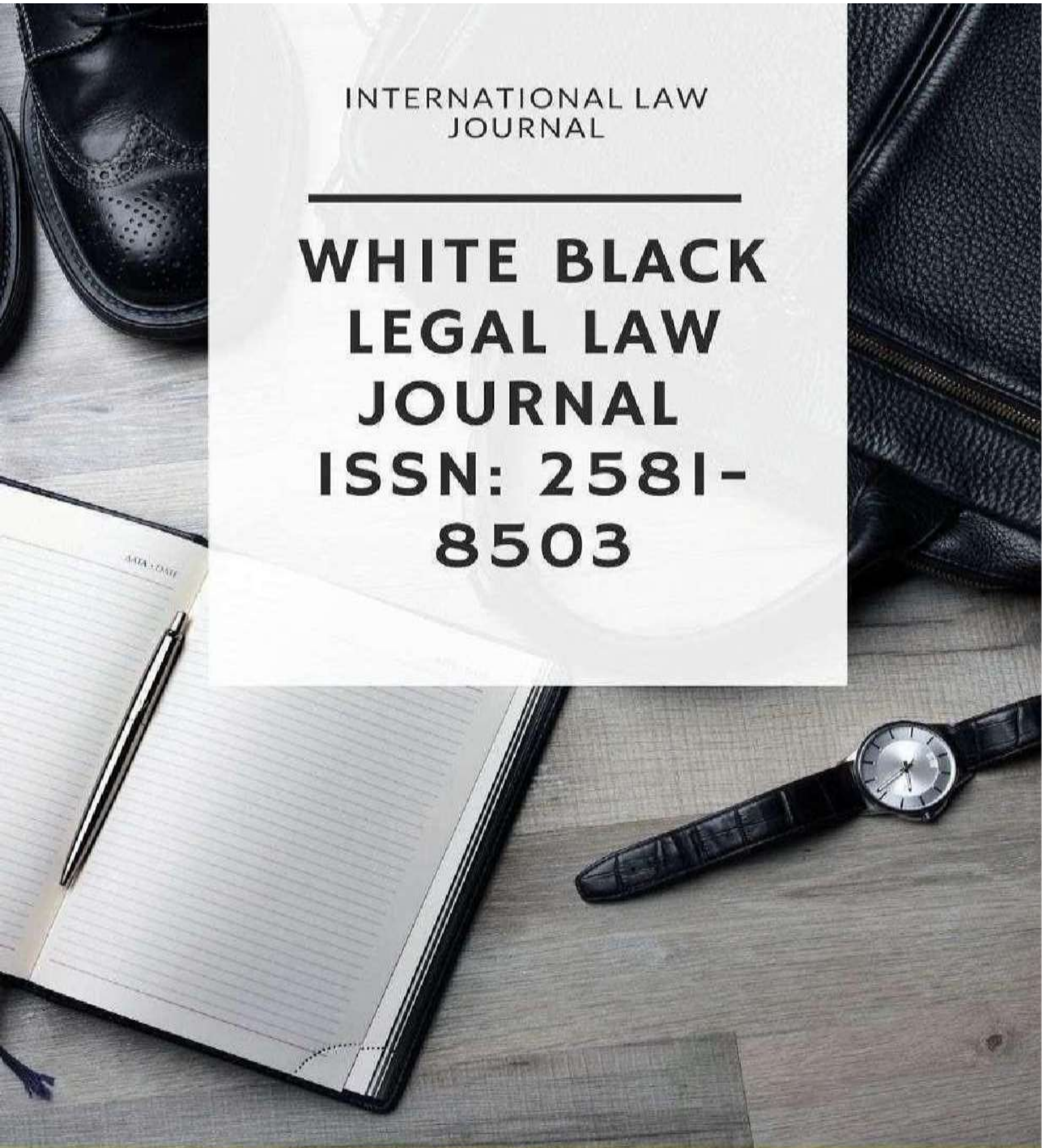

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WHITE BLACK LEGAL is an open access, peer-reviewed and refereed journal providededicated to express views on topical legal issues, thereby generating a cross current of ideas on emerging matters. This platform shall also ignite the initiative and desire of young law students to contribute in the field of law. The erudite response of legal luminaries shall be solicited to enable readers to explore challenges that lie before law makers, lawyers and the society at large, in the event of the ever changing social, economic and technological scenario.

With this thought, we hereby present to you

GREEN FINANCE: STIMULATING SUSTAINABILITY THROUGH FINANCIAL INSTRUMENTS

AUTHORED BY- SAKSHI THAKKAR

ABSTRACT-

The concept of green finance has become increasingly important in the efforts to promote sustainable development and environmental preservation. It uses financial services, innovative products, institutional frameworks, national laws, and financial services to increase the flow of capital towards environmentally friendly projects. This essay explores the complex relationship between finance and the 'green' dimension of green finance, looking at the different tactics and systems used by the industry to support environmental sustainability.

The report also examines how legal and regulatory bodies in India and throughout the world are changing how they regulate the green finance industry. It draws attention to the proactive steps taken by governments, central banks, and oversight organisations to foster an atmosphere that is favourable to the expansion of green financing. The importance of global convergence and cooperation in creating consistent guidelines and best practices for green financing is also emphasised in the report.

The article also highlights the areas where different authorities agree and disagree in creating a consistent conversation about green financing. It examines the areas where definitions, taxonomies, reporting systems, and implementation techniques agree and disagree, illuminating the possibilities and obstacles in reaching a worldwide unified approach to green finance.

All things considered, this extensive study offers a full grasp of the various facets of green finance and offers insightful information to stakeholders, financial institutions, and politicians that are dedicated to promoting sustainable financial practices and a sustainable future.

Keywords: Green Finance, Sustainable Development, Environmental Sustainability, Renewable Energy, Green Bonds, ESG, Regulatory Framework, International Cooperation.

INTRODUCTION-

Green financing is to increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities.
-United Nations Environment Programme

Green finance does not have a single definition that is accepted by everyone. While definitions vary among nations and organisations, the fundamental concept remains the same: green money refers to funding aimed at achieving a sustainable planet. It consists of national policies and programmes, institutional setups, financial services, and goods meant to encourage the flow of capital towards environmentally friendly business ventures. As a result, there will be less risk from climate change, a healthier environment, and more effective resource mobilisation[1] and capital preservation.

Both public and private funding are a part of green finance. It includes managing environmental concerns proactively. Although there has been significant movement in the direction of green finance, bank lending and investments that are unmistakably classified as "green"[2] nonetheless remain extremely small.

GREEN FINANCE IN INDIA-

Since the RBI acknowledged the importance of climate change and global warming in the context of sustainable development in its 2007 notification on "Corporate Social Responsibility, Sustainable Development and Non-financial Reporting - Role of Banks," India has actually been focusing more on green finance. The Ministry of Finance established the Climate Change Finance Unit (CCFU) in 2011 to serve as a coordination hub for several organisations involved in green finance. Several financial and tax incentives have been implemented in India, including the "Green Car Loans" programme, the "Faster Adoption and Manufacturing of Hybrid and Electric Vehicles" (FAME) scheme, the Production Linked Incentive (PLI) scheme, and the Priority Sector Lending (PSL) scheme. The Reserve Bank of India is also making an effort to educate the public, financial institutions, and investors on the advantages, disadvantages, and necessity of green financing.[3]

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[1] Anouj Mehta, Sonia Chand Sandhu, et.al., Catalyzing green finance: A concept for leveraging blended finance for green development (Asian Development Bank, Manila, 2017).
[2] G20 Green Finance Study Group, "G20 Green Finance Synthesis Report", September 2016.
[3] Saurabh Ghosh, Siddhartha Nath, et.al., "Green Finance in India: Progress and Challenges", RBI Bulletin 61-72 (2021).

The Reserve Bank acknowledges the obstacles impeding the development of green finance, such as "greenwashing" or false claims of environmental compliance, the lack of a single definition, and the maturity mismatch between investors' short-term priorities and the long-term nature of green investments. It also acknowledges the more general issues surrounding green finance, including "the banks' assessment of environmental risk, the definition of green activities, and aspects of intellectual property rights in development and transfer of technology from developed countries."[4]

In India, green finance is still in its infancy. Since 2018, just 0.7% of all bonds issued in India have been green bonds. Less than 8% of total bank credit outstanding to the power sector is lent by banks to the non-conventional energy sectors. Due to a number of issues, India's financial intermediation for green sectors has been insufficient. The author will talk about these difficulties in the growth of green finance in the next section.[5]

WAYS FINANCE STIMULATES THE 'GREEN' IN GREEN FINANCE-

Through various green finance strategies, the financial sector acts as a catalyst for increasing environmental sustainability.

First, the expansion of renewable energy projects is propelled by money. The development of renewable energy sources such as solar, wind, and other private sector investments, along with government grants and incentives, has been essential. Furthermore, as technology advances, these renewable energy options become more viable and efficient.[6]

In addition, the emergence of sustainable debt products and green bonds has become a powerful financial weapon. These bonds are specifically intended to finance initiatives that benefit the environment. Green bonds give investors a concrete way to support sustainability while also receiving competitive financial returns by allocating funds directly towards ecologically beneficial initiatives.[7]

[4] Ibid.
[5] G20 Green Finance Study Group, "G20 Green Finance Synthesis Report", September 2016.
[6] International Renewable Energy Agency (IRENA), "Renewable Power Generation Costs in 2020,"
[7] Climate Bonds Initiative, "About Green Bonds,"

Another critical tactic is to include Environmental, Social, and Governance (ESG) considerations in financing and investment choices. This strategy makes sure that financial institutions evaluate things like social responsibility, a company's carbon footprint, and ethical governance procedures. They can successfully reduce the risks connected to unsustainable endeavours by doing this. This promotes long-term financial stability and harmonises investments with environmental goals.[8]

The financial sector effectively directs resources towards sustainable initiatives and drives positive environmental benefits by actively promoting green finance through various channels.

PUBLIC POLICY TOWARDS GREEN FINANCE-

1. International practices-

The G20 has been addressing climate change for the last ten years, and in an effort to reduce harmful emissions, they have recently shifted their focus to emphasise the significance of a circular carbon economy (CCE). Flagship programmes like the United Nations Environment Programme (UNEP)[9], Equator Principles (EP) for financial institutions, Principles for Responsible Investment (PRI), and Statements of Commitment by financial institutions on sustainable development have been established to drive green initiatives globally. These campaigns urge businesses, both financial and non-financial, to include environmental factors in their finance plans.

Reliable information on entities' management of environmental and social risks, as well as their track record in finding opportunities for both financial returns and environmental benefits, is essential to ensuring a consistent flow of capital into sustainable initiatives. The Sustainable Stock Exchange project suggests that stock exchanges in signatory nations create stock price indices that track businesses that demonstrate excellence in incorporating Environmental, Social, and Governance (ESG) principles[10] into their funding efforts. The Bombay Stock Exchange (BSE) and the National

[8] Global Reporting Initiative (GRI), "ESG Reporting,"

[9] https://www.unenvironment.org/regions/asia-and-pacific/regionalinitiatives/supporting-resource-efficiency/green-financing

[10] A collection of guidelines for a business's operations that adhere to specific social, environmental, and governance norms are known as environmental, social, and governance (ESG) principles. Many investors use it as a benchmark to evaluate the sustainability of possible investments. Environmental criteria take into account a company's operational and environmental cost balance. Social criteria pertain to the interactions that businesses have with their suppliers, customers, workers, and the local communities in which they operate. The topics of governance include internal controls, shareholder rights, audits, executive compensation, and leadership of a corporation.

Stock Exchange (NSE), the two largest stock exchanges in India, are actively involved in this project and produce their own ESG indices.

There are four primary ways to classify the global regulatory environment for green finance. First, firms in the financial and non-financial sectors are urged to disclose sustainability, and this requires them to publish on a regular basis the risks associated with ESG. After the G20 endorsed the voluntary adoption of the proposals made by the Task Force on Climate-related Financial Disclosures (TCFD), this effort gained momentum. Leading stock exchanges, financial regulators, and corporate affairs ministries across a number of nations, including China[11], Hong Kong, the UK, India, the Philippines, Vietnam, and Singapore, have put in place guidelines for listed firms to disclose risks connected to environmental, social, and governance (ESG) disclosure.

Additionally, both financial and non-financial institutions are subject to macro- and micro-prudential rules. For example, Lebanon had a policy of differential reserve requirements for commercial banks, which linked reserves to the percentage of green projects in their loan portfolios, while China implemented credit limitations based on environmental compliance.

Finally, a few nations have created specifically green financial institutions. In 2012, the government-owned UK Green Investment Bank was established, and Nordic nations joined forces with municipal and regional governments to issue bonds on the financial markets, with the proceeds going to their subnational members.

2. <u>Public policy in India-</u>

India has shown a significant commitment to green financing as early as 2007. This dedication is demonstrated by the numerous legislative efforts and regulatory actions designed to advance environmental sustainability. A notice highlighting the role of banks in CSR, sustainable development, and nonfinancial reporting was released by the Reserve Bank in December 2007. A policy framework for reducing the effects of climate change was established in 2008 with the creation of the National Action Plan on Climate Change (NAPCC). In addition, the Ministry of Finance established the Climate Change Finance Unit (CCFU) in 2011 to oversee initiatives related to green

[11] Stock exchange in Shanghai.

finance.

Implementing sustainability disclosure standards, which have been required since 2012 by the Securities and Exchange Board of India (SEBI) to force the top 100 listed businesses to publish annual business responsibility reports, was one important strategic decision. In May 2017, SEBI released guidelines outlining the disclosure requirements for the issuance of green bonds. Under the Companies Act of 2013[12], the Ministry of Corporate Affairs mandated that businesses report on their progress towards Corporate Social Responsibilities (CSR).

Along with these fiscal and budgetary measures, India has implemented other measures to fulfil its obligations under the 2015 Paris Agreement. Incentives for rooftop solar panels, generation-based incentives, and programmes like Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) to encourage the manufacturing and sale of green vehicles are some examples of these incentives. By integrating the small renewable energy sector under its Priority Sector Lending (PSL) plan and making loans available to businesses in the field, the Reserve Bank has aggressively encouraged green finance. In September 2019, India also declared its intention to generate 450 GW of renewable energy by 2030. Via a number of publications and speeches, the Reserve Bank has aggressively pushed green finance, highlighting the need of regional green bond markets and tackling issues like "greenwashing." The establishment of green financial institutions has also been pursued by organisations such as the India Infrastructure Finance Corporation Limited (IIFCL) and the Indian Renewable Energy Development Agency (IREDA). When taken as a whole, these programmes show how committed India is to promoting environmental sustainability and green financing.

BUILDING A UNIFORM DISCLOSURE-

Collaboration and coordination across international borders are necessary to establish a standard worldwide framework for green finance. The dissemination of best practises and the facilitation of knowledge exchange are greatly aided by international organisations and cooperative projects.[13]

Non-governmental organisations (NGOs) and standardisation bodies are also essential to this effort.

[12] https://www.mca.gov.in/Ministry/pdf/FAQ_CSR.pdf
[13] United Nations Environment Programme (UNEP), "Principles for Responsible Investment (PRI)"

They support the creation of uniform reporting guidelines, accreditation schemes, and the sharing of best practises, all of which improve credibility and transparency in the field of green finance.[14]

In addition, conferences, forums for the industry, and platforms for information exchange serve as catalysts for the exchange of experiences and success stories. This collaborative learning increases the efficacy and impact of green finance projects by creating an atmosphere that is favourable to their success.[15]

CONCLUSION-

The financial industry has admitted that the economy is seriously threatened by climate change. Green money will be essential to combating climate change. It must, however, get past numerous obstacles. It takes a coordinated strategy and determined efforts from lawmakers, regulators, and financial system participants. It is imperative to adopt an integrated approach concerning taxonomy, norms, and financial products and services. This will facilitate the quicker implementation of green finance by the Indian financial system. A plan for strengthening our financial systems' resistance to climate change threats and providing funding for environmentally friendly initiatives is necessary. To steer these financial intermediaries and regulators towards green finance, a group made up of specialists from various key sectors should be constituted.

[14] International Organization for Standardization (ISO), "ISO Standards for Sustainable Finance"
[15] Global Sustainable Investment Alliance (GSIA), "2018 Global Sustainable Investment Review”