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Reviewing Green Initiatives in India's Sustainable Finance Landscape

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Abstract

Businesses run their economic activities to generate profit; it is the unique feature of capitalism. But the new edge of the economy focuses on sustainable businesses by making good to all stakeholders. To protect the planet, not only businesses but also the entire human race can ensure its longevity. Harmful waste generation is very common in the daily operation of business activities. But now business leaders are thinking about sustainable production by minimizing Green House Gas emissions, producing green products, and so on.

Sustainable finance is basically financing sustainable production, activities, and projects. In our research, we tried to review the green initiatives (i.e., initiatives for sustainable finance) of the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) to promote sustainable finance from the year 2007 to the present time by way of issuance of green bonds and financing the non-conventional energy sector. We also tried to look into overall government initiatives to attain sustainable development goals in India.

Keywords: *Carbon Emissions, Corporate, Economy, Sustainable Business, Sustainable Finance.*

1. INTRODUCTION

Sustainability has appeared to be a method of ensuring future longevity. "Sustainable finance" has been considered to be a new way of looking at business. Traditionally, "profit-making" was the one and only motive of businesses, but now business leaders has been trying to get a competitive advantage to ensure their sustainability in the market by doing good for the environment and society as well. In the past, businesses had tried to produce goods at a lower cost without thinking about carbon emissions (*Source: Spiller, 2021*). However, in the sustainable business paradigm, businesses have been considered to be making their operations more environmentally friendly by reducing carbon emissions, using less paper, using non-fossil fuel, producing biodegradable waste, and so on.

Several studies in the European Union have shown that sustainable corporations not only make a beautiful planet but can also provide a better financial return to their investors than their competitors. *(Source: Corporate Sustainability Reporting, 2023).* The Black Rock study also found that the performance of the better-profiled Environmental Social and Governance companies is far better thanks to the "sustainable premium" than that of their peers *(Source: Hobbs, 2023).* New-generation young buyers have been very concerned about the company's economic, social and governance practices. So, companies should be very much focused on economic, social and governance best practices to maintain their good image and brand positioning. So, sustainable finance has been simply the use of corporate funds to run businesses in an environmentally friendly manner while also doing well for society and adhering to structured formal governance to protect the interests of all stakeholders.

Financial institutions have been the indirect power to ensure sustainable finance by making an outlay of the value of allocated funds to businesses. So, in this regard, in our research paper, we have been trying to see the initiatives of the Reserve Bank of India on sustainable finance in India while considering the performance of banks in the allocation of debt finance to the non-conventional energy sector. Furthermore, the green bond, particularly the sovereign green bond proposed in the budget for 2022-23, has been a way for India to meet its commitment to reduce carbon emissions in the economy.

2. LITERATURE REVIEW

Singh (2015) inferred that banks can adopt green banking practices into their operations for sustainable environmental management to save the planet.

Sunil et al. (2020) concluded that environment-friendly investments and projects that address sustainability and ecological development are called "green finance." Moreover, the research paper also inferred that the environmental and social reporting mechanisms of companies might enhance their sustainable image.

Kharade (2021) inferred that a transparent, long-term and investor-friendly regulatory policy on green finance can boost trust and confidence in the minds of domestic as well as international investors.

Kumar et al. (2021) concluded that there is an immediate need to inform potential Indian investors about the importance of green investment, and the authors also suggested that it is high time for India to learn about the sustainable green lifestyle of citizens in developed nations. *Mishra (2021)* opined that a negligible carbon emission rate, adequate use of natural resources, and proper social inclusion are the signs of green finance. Green finance may inject fresh air into the ecosystem, and it also has a positive effect on plant and human life. *Rout et al. (2021)* discovered that the Central Bank of India and governments must work together to develop and implement a structured sustainable policy framework on green finance. In a nutshell, green finance is to be considered a critical tool for achieving sustainable growth in the Indian economy and banking system.

Ansari et al. (2022) opined that to promote a green Indian economy, a proper blend of investors, issuers, and green investment projects is needed.

Bharati et al. (2022) highlighted that there are some major issues with adopting sustainable financing for Small and Medium Sized Enterprises (SMEs) in India: the insufficient regulatory policy for Small and Medium Sized Enterprises (SMEs) sustainable financing, the huge cost required to adopt sustainable financing, and so on. So, this paper offered the suggestion that incentives should be offered by policymakers for SMEs to smooth the installation of sustainable financing strategies for their longevity in the economy.

K.M. et al. (2022) concluded that all environmental, social, and governance funds view sustainable finance as a golden opportunity from both investor and corporate perspectives. To take a sustainable approach, comparatively big companies are adopting green fuels in their business operations, which minimizes the planet's negative impact.

Raju (2022) revealed that Indian citizens are showing an interest in the accessibility of green finance to achieve sustainable long-term economic growth in the country. Moreover, the research paper has also highlighted how properly structured information systems may enhance the sustainability of the economy.

3. RESEARCH GAP

According to the above literature review, it seems to be observed that -

- There is no research work on the overall overview of the Reserve Bank of India's initiative toward sustainable finance and
- There is no research work on the participation of banks as loan providers in the non-conventional energy sector.
- There is no research work on insight into overall government initiatives to attain sustainable development goals in India.

So, from our research work, we are trying to see the overall year-round initiatives of the Reserve Bank of India to promote green finance in India, banks' performance towards the non-conventional sector, and the role of the sovereign green bond to minimize carbon emissions in the economy and overall government initiatives.

4. RESEARCH QUESTIONS

The following research questions are raised from the detailed literature review and research gap -

1. What are the initiatives taken by the RBI and SEBI to promote sustainability in the finance of India?
2. How is the performance of banks in terms of bank loans to non-conventional energy sectors?
3. Is there any role for the sovereign green bond in fulfilling the commitment to minimize carbon emissions?

5. OBJECTIVES OF THE STUDY

Our research work has the following objectives:

- To see the RBI's and SEBI's initiatives to make sustainable finance.
- To observe the banks' participation in providing loans to the non-conventional energy sector.
- To get an introductory idea about the role of the sovereign green bond in sustainable finance in India.

6. METHODOLOGY

Study Type: The entire research work is descriptive and analytical in nature.

Data: All the data were collected from secondary sources like government websites, SEBI web pages, e-content, etc.

Tool and Techniques: Analytical interpretation was applied throughout the entire research work.

Limitations: Due to time constraints, primary data was not collected to analyse the objectives of the research work.

7. ANALYSIS AND FINDINGS

A) *Policy Towards Sustainability In The Economy - Indian Aspects*

Table 1: Year-Wise Initiatives Taken by RBI and SEBI

Year	Events
2007	• India has started to recognize the importance of green finance as a tool of sustainable development in the beginning of the year. • The RBI at the end of the year also focused on CSR, the importance of sustainability, the value of qualitative reports on performance, and the role of banks in this aspect. • To promote the continuous economic development of India, RBI also highlighted major alarming issues like global warming and climate change.
2008	• NAPCC i.e., the National Action Plan on Climate Change was introduced. • The main aim of NAPCC was to chalk out a wider policy framework to mitigate the negative impact of climate change.
2011	• The Central Government formed the Climate Change Finance Unit. • The responsibility is to promote green finance in India.
2012	• Implementation of the sustainability disclosure requirements was the major strategic move. • National Stock Exchange and Bombay Stock Exchange result-based The top hundred listed companies are bound to publish annual business responsibility reports since, 2012 and also update the rules every so often as per the Securities and Exchange Board of India guidelines.
2015	• The Reserve Bank of India has also taken the required steps to encourage green finance initiatives in the Indian context. • Its priority sector lending scheme includes the small renewable energy sector. • The eligible loan amount under this scheme is as follows: a) A loan of up to Rs 30 Crores is allowed to firms engaged in the renewable energy sector. b) Households investing in renewable energy can obtain a loan of up to Rs 10 Lakhs.
May, 2016	• India's first 'green bank' is Indian Renewable Energy Development Agency in the context of green financial institutions.
May, 2017	• To specify the requirements of disclosure, SEBI published instructions and guidelines for green bond issuance.
October, 2017	• The report of the Committee of Corporate Governance proposes to discuss a sound plan and budget, board evaluation, risk management, environmental Social and Governance, succession planning structure, and so on in the annual board of directors meeting.
September, 2019	• The Indian government has set a long-term goal to reach 450 GW of renewable energy generation within 2030.

Source: https://www.rbi.org.in/

Since 2007, the RBI has taken lots of steps to promote green finance for sustainable economic development. Simultaneously, a bunch of fiscal and financial initiatives are active in India. These initiatives are expected to decrease greenhouse gas emission intensity by 33% to 35% and achieve 40% of the installed non-fossil energy sector capacity by 2030, as per the Paris Agreement of 2015.

B) *Bank Loan Strategy Towards the Non-Conventional Energy Sector*

Table 2: Outstanding Bank Credit For The Non-Conventional Energy Sector (March, 2020)

Name of the Banks	Amount Outstanding (Rs. In Crore)	As a Per Cent of Power Sector Credit	As a Percent of Total Bank Credit
Public Sector Banks	21,655	6.2	0.5
Private Sector Banks	12,302	11.9	0.5
Foreign banks	2,586	27.1	0.7
All Banks	36,543	7.9	0.5

Source: RBI Bulletin, 2021

The RBI included small-scale renewable energy as a part of its green finance initiative as a part of the priority sector lending (PSL) scheme in 2015. Public sector banks lend the highest amount, i.e., Rs. 21,655 crores, to the non-conventional energy sector as compared to the private sector (Rs. 12,302 crores) and foreign banks (Rs. 2,586 crores). Moreover, at the end of March 2020, the actual amount of total lending to non-conventional energy was Rs. 36,543 crores, out of which 7.9% was given as loan capital to the power sector. The performance of banks as loan providers in the non-conventional energy sector is not at the desired level, which may be due to the probability of the creation of Non-Performing Assets. Moreover, most businesses use fossil fuels as their energy sources because they are easily available and lack consciousness. So, the demand for renewable energy is not at an adequate level. So, loans to the non-conventional energy sector may not be profitable.

C) *Green Bonds and The Government of India's Sovereign Green Bonds - Tool for Promoting Sustainable Finance in India*

Table 3: Green Bond and the GOI's Sovereign Green Bond

Green Bond	A Green Bond, unlike other bonds, raises funds from investors to meet a financial need. But in the case of green bonds, the accumulated fund is used for "green" projects.
SEBI Disclosures	On December 3, 2015, a concept paper was placed on the SEBI website to get the public's view on the disclosure requirements, the need for public issues, the requirement of listing green bonds, and the listing of privately placed green bonds to promote sustainable finance.
Sovereign Green Bonds (para 103)	The 2022-23 Union Budget has mentioned the issuance of sovereign green bonds to fulfill the ambition to reduce carbon emissions significantly in the economy.
Objectives	The main aim of issuing this bond is to get the requisite funds from potential investors and invest the same in public sector-held projects with the aim of reducing the carbon density of the Indian economy.
Usage	The total fund collected from the issuance of the Sovereign Green Bonds (SGBs) will be used to fund the eligible green projects.
Investors' Protection	To maintain the transparency of the fund from the SGBs, the GOI will provide a detailed report of the allocation of the proceeds as well as the environmental impact of the funded projects.

Source: Author's Perception

India has been actively promoting green bonds to mobilize funds for environmentally friendly projects. To ensure transparency and accountability, SEBI has issued guidelines for green bonds. Indian companies and institutions have issued green bonds to finance renewable energy projects, energy efficiency initiatives, and sustainable infrastructure development. As per the intention to issue sovereign green bonds, usage of the fund is restricted to green projects, especially to reduce carbon emissions. But the thing is that investors will appreciate investing in it if there are some tax advantages. Till today, there is no specific tax benefit for investors. The entire return from the sovereign green bonds is taxable as per the individual's tax rate, and if this bond is transferred in the open market before the maturity date, then it also attracts tax liability. Only those investors who are focused on long-term green social development are willing to invest in it. India's sustainable finance landscape has witnessed significant growth and progress in recent years, with several green initiatives aimed at promoting sustainable development and addressing environmental challenges. The Indian government has implemented various measures to promote renewable energy financing.

The estimated amount of Rs. 8,000 crore in Sovereign Green Bonds (SGB) was issued by the Government of India on January 25, 2023. Rs. 4,000 crore of 5-year SGBs were issued at a coupon rate of 7.1%, and the remaining Rs. 4,000 crore of 10-year SGBs were issued at a coupon rate of 7.29%. All of this Rs. 8,000 crores fund is used for environmentally friendly projects. Another Rs. 8,000 crores SGB was issued by the GOI on February 9, 2023. In total, Rs. 16,000 crore in SGBs were issued by the GOI in January and February, 2023 to support green projects.

8. FINDINGS

From our entire study, we observed that:

- The government initiatives demonstrate India's commitment to promoting sustainable finance, addressing climate change challenges, and achieving its renewable energy targets.
- By providing financial support, guidelines, and regulatory frameworks, the government has created an enabling environment for investments in environmentally sustainable projects.
- The CSR Mandate has played a significant role in mobilizing funds for green initiatives, as companies allocate resources towards environmental sustainability, renewable energy, and social development projects.

CONCLUSION

Since December 2007, the issue of sustainable finance become more powerful and pressure to improve corporate climate through the issuance of green bonds. In our study, we observe that RBI and SEBI are doing the same. In 2015, India's fourth largest private bank issued a green bond to the extent of $80 million (Approx). India is now becoming the second largest emerging green bond market with $7.2 billion in issuance. We can conclude that several green initiatives were taken by the RBI as well as SEBI. Moreover, as per the RBI guidelines, priority sector lending mechanisms exist in India for agriculture and allied services and products, the education sector, food for poor people, etc. But now it's high time to consider sustainable finance in the purview of priority sector lending by banks to foster the growth of the green Indian economy. Simultaneously, a tax benefit should be imposed on the sovereign green bonds to attract investors.

Moreover, the ESG parameter should be ensured by all types of companies so that sustainability can be achieved in India. India has made a significant walk with long deceive steps in the specified direction of integrating green initiatives into its sustainable finance landscape. Through measures like renewable energy financing, green bonds, sustainable infrastructure financing and sustainable banking practices, India has demonstrated its commitment to addressing environmental challenges. However, continued efforts and collaboration between various stakeholders are crucial to further accelerate the transition towards a greener and more sustainable economy.

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