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EDITED BY
Dr. B. Geethpriya
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Proceedings of the

INDIAN COUNCIL OF SOCIAL SCIENCE RESEARCH SOUTHERN REGIONAL CENTRE (ICSSR-SRC)

ICSSR-SRC

Sponsored

One-Day National Seminar on

GREEN FINANCE FOR A VIKSIT BHARAT

29th January 2025

Editors

Dr.B. Geethpriya

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Organized By

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http://www.rathinamcollege.ac.in email:info@rathinamcollege.in

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Editors : Dr.B. Geethpriya
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Published and Printed by : Chendur Publishing House, Chennai
Mobile: +**91 8838702557**

ISBN : 978-81-984034-0-7

GREEN FINANCE AND IMPACT INVESTING

Ms.D.Saranya , Assistant Professor
Nallamuthu Gounder Mahalingam College, Pollachi.

Abstract

Green finance and impact investing are transformative approaches to aligning capital allocation with environmental sustainability and social responsibility. Green finance focuses on funding projects and initiatives that mitigate climate change, promote renewable energy, enhance energy efficiency, and protect ecosystems. Impact investing, on the other hand, emphasizes measurable positive outcomes alongside financial returns, targeting areas such as education, healthcare, poverty alleviation, and clean water access. The synergy between these two paradigms fosters a holistic framework for sustainable development, addressing the urgent need for scalable solutions to global challenges. Policy incentives, innovative financial instruments like green bonds, and technological advancements have accelerated their adoption. However, barriers such as inconsistent regulatory frameworks, lack of standardized metrics, and the need for greater investor awareness remain significant. This paper explores the evolution, principles, and key drivers of green finance and impact investing, highlighting their potential to catalyze a transition toward a more equitable and sustainable global economy. It also examines case studies that demonstrate successful implementation and the pathways to overcome challenges for broader integration.

Keywords: Green finance, green banking, green insurance.

Introduction

The pressing challenges of climate change, environmental degradation, and social inequality demand innovative financial approaches that align economic growth with sustainable development goals. Green finance and impact investing have emerged as pivotal strategies in addressing these global issues. While green finance focuses on mobilizing capital to support projects that promote environmental sustainability, such as renewable energy, energy efficiency, and conservation initiatives, impact investing goes beyond financial returns to prioritize measurable social and environmental outcomes in areas like healthcare, education, and community development.

The convergence of these strategies represents a paradigm shift in how financial markets operate, redefining the relationship between profit and purpose. Governments, private investors, and international organizations increasingly recognize the role of sustainable finance in fostering long-term resilience and inclusive growth. Instruments like green bonds, carbon markets, and blended finance mechanisms have gained traction, illustrating the growing commitment to integrating environmental and social considerations into investment decisions.This introduction sets the stage for a comprehensive exploration of green finance and impact investing, delving into their principles, evolution, and transformative potential. By examining case studies, challenges, and policy frameworks, this discussion aims to illuminate pathways for scaling sustainable finance to drive global progress toward environmental and social equity.

Review of Liteature

Literature Review being the major aspect of the research work helps in understanding the past research work carried out regarding the topic and will give the base for formulation and analysis of research problem and help us to know the scope, limitations of the past research and gives an idea about the aspects not covered by past researchers.

Jeffrey D.Saches et al (2019) analyzed that the investment in renewable and energy efficiency has been declining which would threaten the expansion of green energy and concluded that to achieve the sustainable development goals, Green Financing needs to be accelerated which covers green projects, green investments, green banking, financial technologies ,etc

Sharif Mohd et al (2018) examined the role played by Green Finance as a solution to bring harmony between the environment and the economy and also discussed the various Green financial instruments available and the sustainability initiatives in India and opined that India has a great potential to create a green infrastructure needed for green finance.

Parvadavardini Soundarrajan et al (2016) described Green finance as the core part of low carbon growth connecting, financial industry, environmental improvement, and economic growth and concluded that sustainable finance is the future and Indian banks should continue to play the role of change agent with the overall emphasis on three P’s of People, Planet and Profit.

Dipika (2015) studied the tendency that business organizations and the stakeholders are giving more importance to environmental protection and sustainable development. The researcher concluded that Green banking helps in improving economic growth and protects the environment. Thus, green lending should be given priority as part of sustainable development.

Research objectives

- To study the various aspects of green finance that helps in attaining sustainability goals.
- To identify the types of green financing products
- To analyze the benefits and limitations of green finance

Research Methodology

The research paper is descriptive in nature. The data is collected from secondary sources collected through published sources such as reports, journals, research articles, and websites.

Meaning of Green Finance: Green Finance is an effective tool through which balance between the economy and the environment can be achieved. Further, it is all about funding or providing monetary assistance for projects and programs that are aimed towards sustainable development.

Meaning of Sustainable Development: It involves all the efforts made to achieve harmony between the development and environmental aspects. This concept aims at protecting natural resources so that future generations will derive benefits from them.

Areas covered by Green Finance

Green Banking

It deals with encouraging eco-friendly practices with the help of banking activities. Green banking helps in the protection of the environment and thus contributes to the welfare of nature and the financial sector. It operates by integrating technological improvements, changing stakeholders' expectations, and operational innovations. The Indian banks providing green banking services to their customers are State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, ICICI Bank Ltd, DFC Bank Ltd, Kotak Mahindra Bank, Induslnd Bank, YES Bank, HSBC Group, IDBI ,etc.

The various practices used as a part of green banking are listed in the below table

Green Banking Practices

S.No	Areas covered	Explanation
1	Online Banking	Providing banking services to the customers with the help of internet. Encourages paperless and cashless transactions.
2	Green mortgage	The mortgage provided for the purchase of a green building or for renovating the already built building to green building
3	Green home equity loan	The Loan provided to purchase install energy-efficient equipment at home
4	Home office conversion	loans Loans to create working place at home and start home working
5	Green car loan	offers less interest rate for purchase of non to low emission vehicles
6	Green credit cards	Every time the cardholder makes the payment, a certain percentage of the amount is deducted and used for environment-friendly projects
7	Energy-efficient loans	Loans for efficient management of energy
8	Alternative fuel Vehicle and Fuelling Infrastructure loans.	Incentives and loans provided to the conversion of existing vehicles to cleaner and efficient fuels

Green Insurance

The Insurance industry is a member of the family of Green financial sector, and thus plays a major role in attaining sustainability goals. Although the insurance industry hasn't been involved directly in environmental degradation and has nothing to do with framing regulations regarding these issues, it works as the backbone for green financing by providing information related to risk management and significantly lowers the risk involved with its various strategies and its business of underwriting. The Insurance Regulatory and Development Authority of India (IRDAI) recently announced that Third Party (TP) premium rates for insurance of private electric vehicles will be given at 15 percent discounted rates from FY 2019- 20.

S.no	Type of Green Insurance	Explanation
1	Green car insurance	The amount of insurance premium will depend on the miles travelled by car thus will reduce the unnecessary use of private vehicles and hence contributes to the environmental protection
2	Green business insurance	Incentives to the owners of the business for the renewal or reconstruction of the damaged buildings with environment friendly products.
3	Eco-friendly home insurance	Provides technological and maintenance support for the renewable energy power systems along with insurance coverage
4	Green travel insurance	This insurance compensates for the effects of emission of carbon dioxide on the environment during travelling by donating part of the premium paid for the projects with the aim to reduce carbon emissions
5	Green life insurance	The insurance company will donate a certain percentage of the insurance premium received for eco-friendly projects.
6	Carbon insurance	Provides insurance cover for the plantation forests against the weather-related risks.

Green Bonds

Bond promises to utilize the proceeds from the bond in the funding of energy-efficient products, reforestation, climate-related projects, and other assets or business activities aimed at the protection of the environment. A balanced approach is needed which considers the proper allocation of funds in eco-friendly projects and at the same time, it has to consider the risk and return involved with the bonds. Green bonds help the issuing company or financial institution in enhancing its goodwill among the stakeholders and helps in getting access to the investor base who are determined to invest only in green investment products. At the same time, it helps those investors who want to invest in socially responsible projects and thus satisfies their urge to integrate investment and social responsibility. Green bonds were first issued by the European Investment Bank and the World Bank in the year 2007. Later, private companies, banks, and financial institutions started issuing green bonds. Securities and Exchange Board of India (SEBI) has issued guidelines for listing and issuing of these debt securities in India. As per SEBI guidelines, the proceeds of such bonds should be invested in green projects including renewable energy, initiatives of climate change action, preserving biodiversity, reducing pollution levels, management of waste, etc.

Types of Green Bonds

S.No	Type of Green Bonds	Explanation
1	Green "Use of Proceeds" bond Secured by assets	Secured by assets
2	Green "Use of Proceeds"	Revenue bond Secured by projects with income-producing nature
3	Green project bond	Secured by a project's assets and liabilities
4	Green securitized bond	Secured by a large asset pool

Green finance refers to financial investments, products, and services that support environmentally sustainable projects, businesses, and technologies. The benefits of green finance are numerous and impactful, especially in addressing climate change and promoting sustainable development. Here are some key benefits:

Environmental Benefits

- Reduction in Carbon Footprint: Green finance supports projects that aim to reduce greenhouse gas emissions, such as renewable energy, energy efficiency, and clean transportation.
- Biodiversity Protection: Investments in eco-friendly projects help conserve natural ecosystems, promote biodiversity, and prevent deforestation.
- Sustainable Resource Management: Green finance encourages the sustainable use of resources, including water, energy, and raw materials, minimizing waste and environmental degradation.

Economic Growth and Innovation

- Job Creation: Investments in renewable energy, green infrastructure, and sustainable agriculture create jobs in emerging industries, promoting economic development.

- Fostering Innovation: Green finance drives innovation in sustainable technologies, creating new markets and business opportunities in sectors like clean tech, circular economy, and sustainable agriculture.
- Long-Term Economic Stability: Green investments tend to be more resilient in the face of environmental risks, which can contribute to long-term economic stability.

Attracting Investment and Capital

- Access to Green Funding: Green bonds, green loans, and other green financial instruments provide a means for businesses and governments to raise capital specifically for environmental projects, attracting investors who prioritize sustainability.
- Improved Investor Confidence: By committing to sustainable practices, companies can enhance their reputation, attract ethical investors, and reduce risks related to environmental regulations, resource scarcity, or climate-related disasters.

Mitigation of Climate Risks

- Climate Change Adaptation: Green finance helps finance projects that build resilience to climate change, such as infrastructure upgrades, flood protection, and climate-resilient agriculture.
- Risk Diversification: Sustainable investments help spread risk across diverse sectors, reducing exposure to industries that are heavily reliant on fossil fuels or prone to climate-related risks.

Social Benefits

- Improved Public Health: Investments in clean energy and reduced pollution contribute to better air and water quality, improving public health outcomes.

- Meeting Regulations: Governments are increasingly implementing regulations that require businesses to meet environmental standards. Green finance helps companies comply with these regulations while avoiding penalties.

- Alignment with ESG Goals: Green finance is aligned with environmental, social, and governance (ESG) goals, helping companies meet sustainability targets, which can improve their market competitiveness and stakeholder relationships.

Long-Term Sustainability

- Sustainable Development: Green finance supports projects that contribute to the United Nations Sustainable Development Goals (SDGs), ensuring that development does not come at the cost of future generations.
- Circular Economy Promotion: It fosters a shift from a linear to a circular economy, where resources are reused, recycled, and sustainably managed, reducing waste and pressure on natural resources.

Enhanced Corporate Reputation

- Sustainability Leadership: Businesses that engage in green finance demonstrate leadership in sustainability, improving their brand image and gaining trust from customers, investors, and stakeholders.
- Attracting Eco-Conscious Consumers: Consumers are increasingly prioritizing sustainability, and companies involved in green finance can capitalize on the growing demand for eco-friendly products and services.

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