

Green Finance : Financing a Sustainable Ecosystem



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The world is changing .. changing at 10 x

It's a VUCAFU world

Disruptive Business models

Profit less turnover
Cash less profit

Soaring Valuations and sustainable growth for
companies focusing on

Triple Bottom Line
People, Profit, Planet

ESG is much more than a recent buzz word

ESG is a key driver for

Ensuring **S**ustainable **G**rowth

Mr. Kofi Annan, the erstwhile Secretary-General of the UN, remarked at the Paris Climate Agreement,

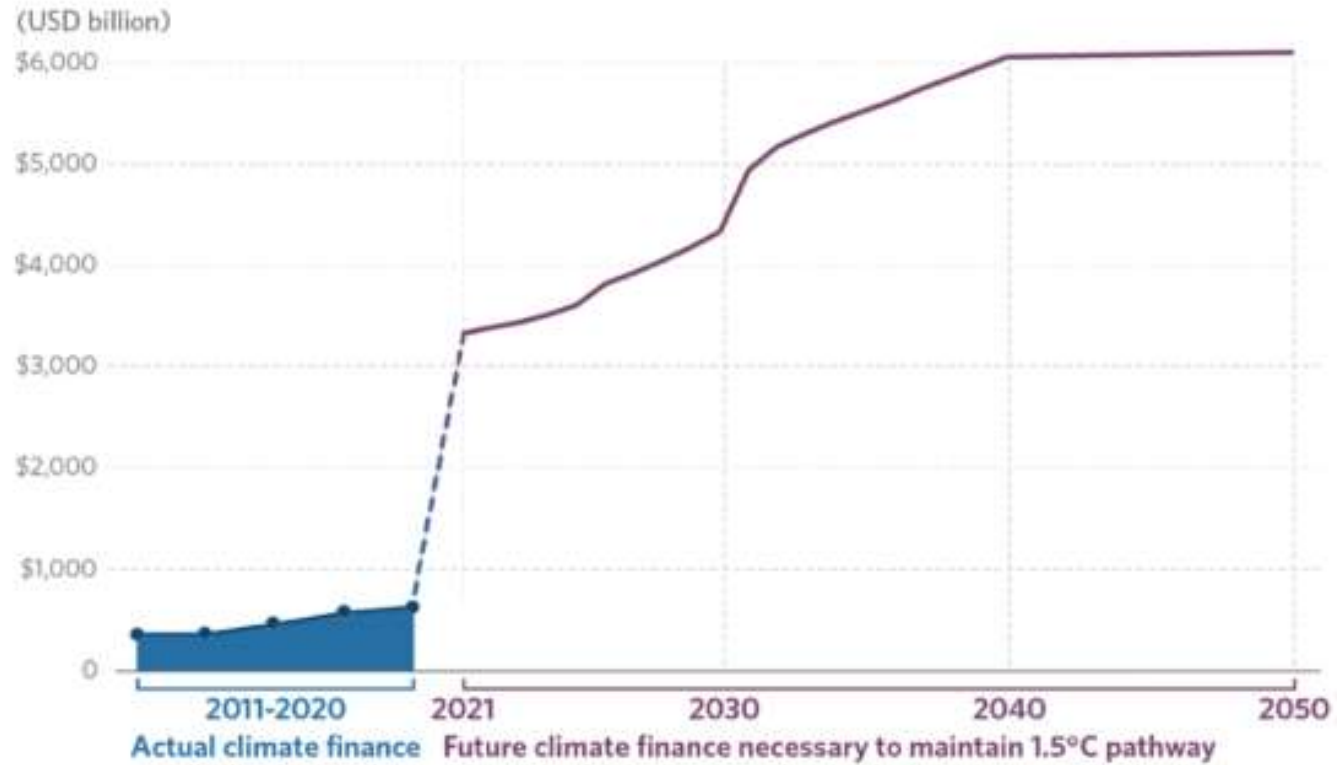
“The world is reaching the tipping point beyond which climate change may become irreversible. If this happens, we risk denying present and future generations the right to a healthy and sustainable planet - the whole of humanity stands to lose”.

These words ring truer today than ever before

The inevitable **CHALLENGE**

- ▶ An estimated **\$400-600 billion** per annum is needed to finance conservation of land, forests and water, and more than **\$350 billion of incremental capital** – to fund projects in renewable energy and energy efficiency.
- ▶ Today, less than **15% of required capital flows** to conservation, the bulk of it coming from public and philanthropic entities.
- ▶ The latest accounting of climate finance shows there is a **financial gap of about \$70 billion**.
- ▶ It is thus important to understand the ways we can leverage additional resources to preserve healthy ecosystems on land and in the oceans.

Figure: Global tracked climate finance flows and the average estimated annual climate investment through 2050



Source: Global Landscape of Climate Finance 2021, CPI, 2021

Imperative for Financial sector

- ▶ A silent revolution is taking place, one which we cannot ignore.
- ▶ Clearly, tackling climate change has become a necessity.
- ▶ The financial sector must develop **approaches and instruments** in order to make environmental finance a mainstream priority.
- ▶ **Green finance is the need of the moment.**

What is Green Finance Ecosystem?

- ▶ GFS refers to the financial system that supports and **enables investments in environmentally sustainable projects** and activities.
- ▶ It includes a range of financial products, such as **green bonds, green loans, green insurance, Green credits and green funds**, that are designed to promote environmentally friendly practices and projects.
- ▶ The green finance ecosystem aims to create a financial system that supports the transition to a **low-carbon, resource-efficient, and sustainable economy**,
- ▶ If we are to successfully transition to a green economy, **it's going to cost** and so naturally the issue of **how we pay** for the transition is a key topic at every level of the debate.

What is Green Finance

- ▶ **Green finance** is a broad term with multiple definitions and is used interchangeably with “**sustainable finance**” and “**climate finance**” depending on context.
- ▶ Green Financing, as defined by the UN Environment Program, ‘is to increase the level of financial flows (from banking, micro-credit, insurance, and investment) from the public, private and not-for-profit sectors to sustainable development priorities”
- ▶ The G20 uses the term “Green Finance” as a broad umbrella term that refers to the major shift in financial flows required to support projects that benefit the environment and society by reducing pollution or tackling climate change.

Components of Green Finance

- ▶ Financing of Public and Private **Green Investments**
- ▶ Financing of **public policies** that encourage implementation of environmental mitigation and adaptation projects
- ▶ **Green Investment funds** and **green instruments** – Green Bonds and other structured green instruments

Sources of Green finance

Green finance mainly stems from the following sources:

- ▶ Local and national governments;
- ▶ Financial institutions that take on environmental responsibility and community development;
- ▶ Non-profit foundations with an environmental mission;
- ▶ Green investments of the business sector, and;
- ▶ Individual investors

Green Bonds

- ▶ Green bonds are a relatively new funding instrument for green projects that have been identified as the potential financial instrument for financing a sustainable future.
- ▶ Green bonds are like any other debt instrument but the funds raised from such bond sale are used exclusively for renewable energy projects.
- ▶ The proceeds from the issue of green bonds are used either to fund projects which have a clear, positive environmental impact or used to invest in generally environmentally desirable business models or assets.
- ▶ India, in particular, has immense scope to diversify the green bond market beyond renewable energy.

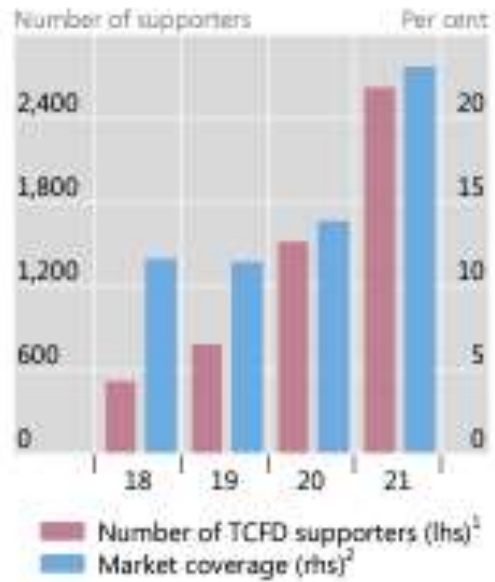
Types of Green Bonds

Green bonds are a type of fixed income instrument used to finance environmental projects. They are classified into four types-

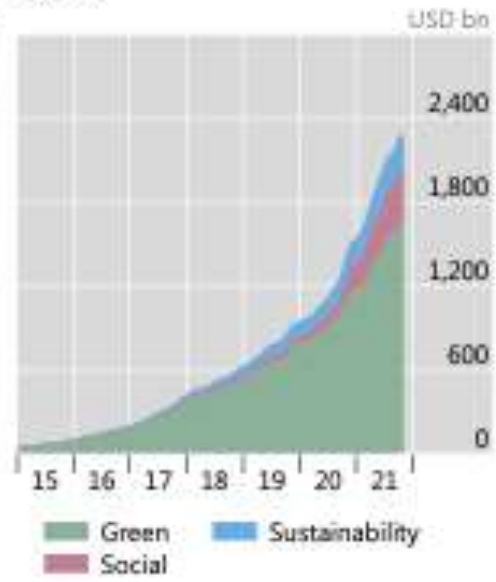
- ▶ **Green 'Use of Proceeds' Revenue Bond:** These types of green bonds are secured by the projects producing income.
- ▶ **Green 'Use of Proceeds' Bond:** These types of bonds are secured by the assets.
- ▶ **Green Securitized Bond:** These types of green bonds are secured by large pooled assets.
- ▶ **Green Project Bond:** These types of green bonds are secured by the balance sheet and assets of the project.

Global Green Finance spectrum

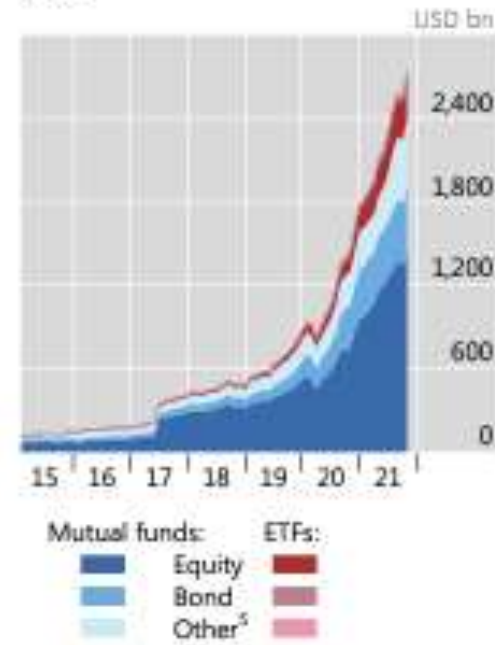
Climate-related financial disclosures



Outstanding amounts of labelled bonds³



Assets under management in ESG funds⁴



Green Bonds issued in India – Select cases

- ▶ In 2015, **YES Bank**, India's Private Sector Bank issued India's first ever green infrastructure bonds raising an amount of INR 1,000 crores.
- ▶ **Exim Bank** of India, in March 2015, issued a five-year \$500 million green bond, which is India's first dollar-denominated green bond.
- ▶ **Axis Bank** launched India's first internationally-listed and certified green bond and raised \$500 million to finance climate change projects
- ▶ **IDBI Bank** raised \$350 million in BBB-rated 5-year green bonds for renewable energy projects in November 2015.
- ▶ In January 2016, **IREDA** issued a tax-free Rs.10 billion green bond
- ▶ **CLP Wind Farms**, the largest wind power developer in India became the first Indian corporate (non-bank) issuer of green bonds in September 2015. CLP Wind Farms raised Rs.6 billion.
- ▶ **RBI** raised Rs. 8000 Crore through Green Bonds in 2023

RBI Discussion paper on Climate Risk and Sustainable Finance

- ▶ Voluntary Target for Green Finance - As a part of their commitment to scale up lending for green finance, the Reserve Bank **seeks to encourage banks to set a voluntary funding target** to increase green funding with the approval of their Board.
- ▶ The banks may set an **incremental target for green finance** over short, medium and longer term towards certain identified sectors.
- ▶ The achievement of these targets may be **reviewed annually** to assess the positive environmental outcomes.

Green Branches and Green Data Centres

- ▶ In order to green the banking processes by making them more environment-friendly, Banks could consider **converting their branches to green branches** by eliminating / limiting the use of paper in their operations,
- ▶ The banks may also look to convert all their data centres to green data centres by switching over to **renewable energy for sourcing power** for the data centres, etc. and implement guidance provided by established frameworks like the Green Data Centre Rating Systems.

RBI's Green Deposits Framework

- ▶ The RBI has announced a new framework to offer **green deposits** to the customers, aiming at developing a Green Finance Ecosystem (GFS) in India.
- ▶ The framework is applicable to Scheduled Commercial Banks
- ▶ A **green deposit** refers to an interest-bearing deposit received by an RE (Regulated Entity) for a fixed period, with the proceeds earmarked for allocation towards green activities and projects that encourage energy efficiency in resource utilization, reduce carbon emissions and greenhouse gases, promote climate resilience and/or adaptation, and improve natural ecosystems and biodiversity.

Country experience: Geothermal investments in Indonesia

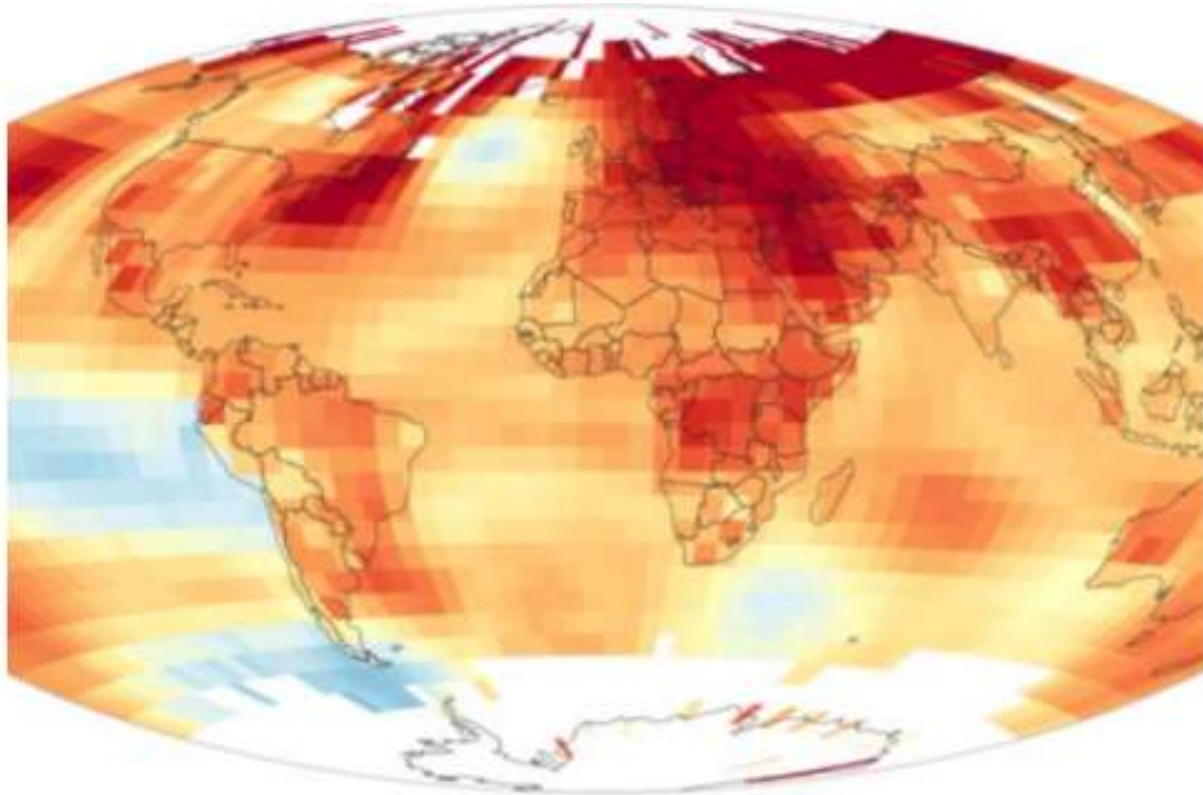
the Government created a US\$400 million fund for the development of geothermal resources.

Country experience: A carbon fund in Thailand

Thailand's market regulatory body, the Securities and Exchange Commission (SEC), approved the establishment of carbon credit fund - must invest at least 85 per cent of their net asset value in greenhouse gas reduction projects or carbon credits

Country experience: Green Investment Bank in the United Kingdom

The Green Investment Bank aims to reach a 'double bottom line' of both achieving significant green impact and making financial return.



*“We are the **first generation** to feel the effect of climate change and the **last generation** who can do something about it.” – Barak Obama*

Green Finance – Action agenda

- ▶ If **green finance** is marshalled in the right way, the global finance market could facilitate sustainable development.
- ▶ The challenge is to **get green finance into mainstream**
- ▶ **Channelization of green funds** to the emerging climate positive sectors and deployment of funds **on time** is crucial.
- ▶ **The financial system needs to serve as the nervous system of the global economy rather than its master.**
- ▶ Finance professionals need to **Think Green**



Thank You