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# Sustainable Finance

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## ABSTRACT

*Finances are like seeds, and they can grow if they've made a productive investment. Financial investment and its positive results are essential for the balance to be considered as sustainable finance. The paper would talk about sustainability in the financial market through bonds. Sustainable financing can be considered in the form of environmental, social and governance. Any investment, in any form whatsoever, does not affect ESG in such a way that it would be considered sustainable finance. At the beginning of the article, the reflection would be based on sustainable finance and how it works when the investment is taken into account. Green bonds are taken into account in the latter part of the article for better sustainable investment, as they are recognized as just like any bond in which an individual has issued a debt instrument for the collection of investment funds. Its role and results in India are the most appropriate and intended investment to date. The importance of green bond investments worldwide has led India to take the initiative to launch green bond investments in the country for the first time in 2015, which YES Bank issued to fund renewable and clean energy projects, particularly in the wind and solar sectors. From the Releasing of Home Green Bond Guidelines by the Indian Securities and Exchange Board to India's Green Finance Upcoming Plans and Initiatives, the paper will highlight the importance of sustainable finance and green bonds. The conclusion will be added at the end of the article. It will set out the gaps and requirements that would relate to the actual situation at the present time and others related to the committee. It will be added later that how these gaps could be filled by following specific patterns of other countries.*

## I. INTRODUCTION

***“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”***

**- Gro Harlem Brundtland**

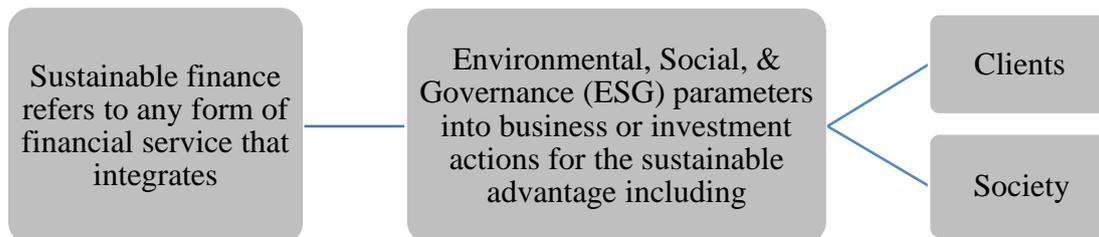
The financial market is more like a service sector, it takes funds from the investors and allocates it to the companies, who use funds for their businesses. Mainly it depends on the company, that assure a return to the investors but an investment comes with certain risks, which usually helps

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the investors to make decision for an investment. But sustainable finance goes further than risks & returns figures. It's main purpose is to identify that, does it have a negative impact on Environmental, social & governance perspectives? Investment issues are critical for investment decisions when it comes to the perspective of sustainable finance and Environmental, social & governance.



### **How will sustainable finance achieve a balance between finance and the environment at the same time?**

- The balance between the investment & sustainable development can promote a value creation in economic, environmental & social terms; a process that maintains & enhances economic prospects, stability and economic productivity both today & even in the future, although at the same time it will contribute to the preservation & restoration of ecological ecosystems & the enhancement of cultural diversity & social well being.

- Sustainability can be identified as development, within the process of investing in a business, a good investment decision can boost the finance, economy, society, as well as the environment.<sup>3</sup>

*“We need bold action on climate change, our generation may not be able to solve all the problems related to climate change, but we can do our part to leave a better planet for the next generation”.*

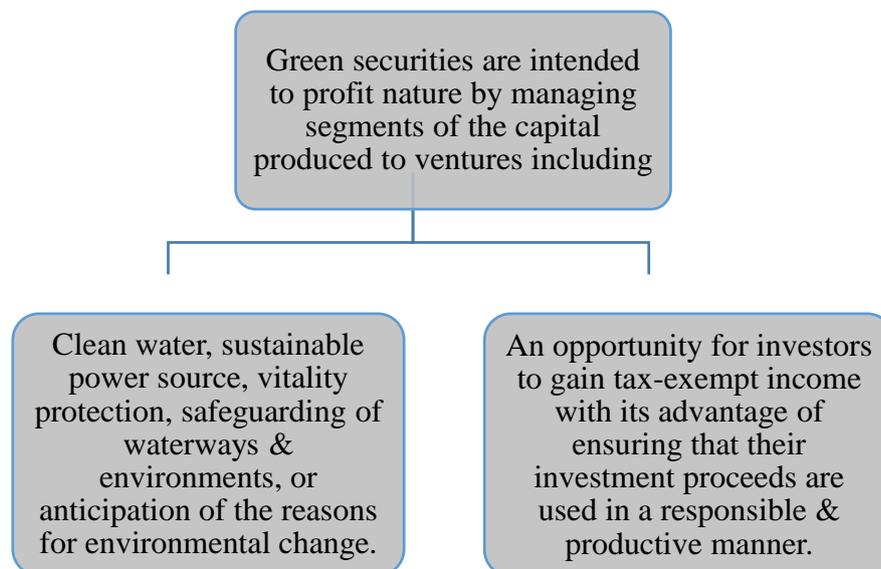
- **Kristalina Georgieva**

## **II. THE VITAL ROLE OF GREEN BONDS IN THE PROMOTION OF SUSTAINABILITY - AN INDIAN PERSPECTIVE**

A green bond is just like any bond in which an individual has issued a debt instrument to collect funds for investment. What separates a Green security from different securities is that the returns of a Green Bond offering are 'ear-set apart' for use towards financing 'green' programs.

<sup>3</sup> Swiss Sustainable Finance, 'What is Sustainable Finance'. <[https://www.sustainablefinance.ch/en/what-is-sustainable-finance-\\_content--1--1055.html](https://www.sustainablefinance.ch/en/what-is-sustainable-finance-_content--1--1055.html)> accessed 14 September 2020.

Consequently the key contrast between a 'green' bond and an ordinary bond is that the guarantor openly states, it is raising money to support 'green' tasks, resources or business exercises with an ecological advantage, for example, sustainable power source, low carbon transport and so on. As of now, there is no standard global definition for what programs meets all requirements for Green Bonds. <sup>4</sup>



All through the previous quite a while, green bonds have gotten one of the most persuasive advancements in sustainable finance.<sup>5</sup>

### III. INDIA'S GREEN FINANCE OVERVIEW

In 2015, India entered the green bond market with the first green bond issued by YES Bank to fund renewable and clean energy projects, especially in the wind and solar sectors. The green bond market has increasingly grown to include many businesses in the public service, state-owned commercial banks, state-owned financial institutions, corporations and the banking sector.

India is a developing country and continues to explore and practise its role in every aspect of becoming a developed nation. It needs guidance and a proper strategy to operate in the area of green finance, Policies and Regulations towards Raising Green Bond Market. From trying to increase its Gross Domestic Product to preserving the environment. As their position has already been discussed by policy makers and an effort has been taken towards a proper action

<sup>4</sup> SEBI, 'Concept paper for issuance of Green Bonds', (December 03, 2015), [https://www.sebi.gov.in/reports/reports/dec-2015/concept-paper-for-issuance-of-green-bonds\\_31167.html](https://www.sebi.gov.in/reports/reports/dec-2015/concept-paper-for-issuance-of-green-bonds_31167.html) accessed 22 September 2020.

<sup>5</sup> Thomas Kenny, 'How Green Bonds Are a Cornerstone of Responsible Investing', *The Balance* (February 04, 2020). <https://www.thebalance.com/what-are-green-bonds-417154> accessed 20 September 2020.

plan. In order to bring India's green bond market to scale, government support in the form of policy and regulatory support. Over the years, the Government of India has given greater policy clarity and regulatory stability in line with the agreements set out in the Paris Agreement, which encompasses a reasonable policy approach towards the green market. One of initiative is taken by SEBI.

### **Securities and Exchange Board of India: Released the domestic green bond guidelines:**

India is second country to have guidance at the national level after China. The Securities and Exchange Board of India (SEBI, Regulator) released its official specifications for Indian issuers for green bonds in January 2016.

According to the guidelines, debt protection shall be known as 'Green' or 'Green Debt Securities' if the raised funds are to be used for properties falling under any of the accompanying general classifications:

- Renewable and sustainable power source, wind, solar energy, bio-energy, eco-friendly innovation & technology.
- Green transportation, particularly public transport etc.
- Adaptation to global warming.
- Reasonable waste administration including reusing, squander to-vitality, productive removal of wastage.
- Energy conservation including effective green structure, like green buildings.
- Green infrastructure utilization, like sustainable agriculture & forestry, forest management.
- The preservation of ecosystem.<sup>6</sup>

### **Upcoming plans and initiatives by India towards green finance**

India is committed to reducing its greenhouse gas emissions by 33-35 percent (from 2005 levels), raising the share of electricity generated on non-fossil fuels to 40 percent and raising forest cover to absorb between 2.5 and 3 billion tonnes of carbon dioxide by 2030. These objectives are verbalized in the government's Intended Nationally Decided Contributions

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<sup>6</sup> Swati Agarwal & Tamiksha Singh, 'Unlocking The Green Bond Potential In India', The Energy and Resources Institute, [https://www.teriin.org/sites/default/files/2018-05/Report%20under%20NFA%20grant\\_2018.pdf](https://www.teriin.org/sites/default/files/2018-05/Report%20under%20NFA%20grant_2018.pdf)> accessed 23 September 2020

(INDCs) under the Joined Nations Framework Convention on Environmental Change (UNFCCC) in Conference of Gatherings (COP 21) in Paris in 2015.

Preliminary projections suggest that around US\$206 billion (at 2014-15 costs) would be required between 2015-2030, for executing transformation activities in key territories like agribusiness, ranger service, fisheries, framework, water assets and biological systems. In addition, external expenditure would be required to strengthen stabilization and disaster response, combining the overall fund demand of US\$ 2.5 trillion between 2015-2030. Achievement will rely upon how successfully policymakers can draw a far reaching map for raising the essential fund and how rapidly the budgetary area in both public and private, can react to the necessities in time.<sup>7</sup>

### **How does sustainable development work in India?**

Sustainable Development in India is based on three critical pillars:

**Pillar 1:** Social Development to have a sustainable future, the needs of people must be met equally, like access to food, suitable housing, medical care, and sanitation. People want a high standard of living, and this must be achieved in a way that does not harm or exploit others.

**Pillar 2:** Environmental Protection: Earth has a limited amount of resources. Humans need fresh air, water and land to live. Earth is productive enough to provide good quality food for all. Sustainable use of resources tries to protect Earth's environment to make sure it is not damaged for future generations.

**Pillar 3:** Economic Development: People deserve the best standard of living that is sustainable. Improving medical care, sanitation, education, and a suitable living standard requires wealth through economic activity.

## **IV. CONCLUSION**

Climate change is a threat to the 21st century, and it is vital that the environment is taken care of; a global challenge is the rising pressure on the environment, damages to the ecosystems and environmental changes. Ability to adapt to a green economy is an incentive for sustainable growth. A number of issues can still be solved within the correct allocation of funds, the contribution we are making now decides the environment will see in the future. However, it has

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<sup>7</sup>Shreyans Jain, 'Financing India's Green Transition', Observer Research Foundation (January 2020) <[https://www.orfonline.org/wpcontent/uploads/2020/01/ORF\\_IssueBrief\\_338\\_FinancingGreenTransition\\_NEW27Jan.pdf](https://www.orfonline.org/wpcontent/uploads/2020/01/ORF_IssueBrief_338_FinancingGreenTransition_NEW27Jan.pdf)> accessed 23 September 2020

always been difficult to exactly identify which investment is sustainable or which investment isn't really sustainable.

From India's perspective, it is important to balance all of the above mentioned aspects, with regard to its capital market, culture, environment and climate change and from an economic point of view. Since the capital market in India is still rising and the environment is on its own, it depends on the activities of mankind. And with the right structure, policies and guidance, by embracing green finance, it is possible to develop further in both finance and the environment at present and in the future.

Securities and Exchange Board of India & Reserve Bank of India have already been performed and took an action towards green finance, such policies & guidelines and action plans were issued the regulatory for a better stability for both financial market & environment. It is therefore, necessary to look at the real situation; the enormous population, climate change, the lack of financial stability, the policy enforced by the regulatory system; there should be a committee to observe that even the policy is operating properly and also that there is still a need to change it.

In certain regions, instead of petrol, India have adopted CNG; this could be advantageous for environmental & financial investment There is a urgent need for awareness of green investment in India, and because of a lack of awareness, small and existing investors are still not looking at green investment.

And secondly, India should learn from the developed nations, like Sweden has quite a strong history of good governance that, along with knowledge-based regulations, manages multifunctional landscapes and forests. Sustainability is essential to Sweden's public transit networks, from green buses operating on biogas and ethanol, to electric trains. Fresh tram purchases from Stockholm Public Transport (SL) are at least 98 percent recyclable. It imports only renewable energy from hydropower or wind power for trains. Sustainable life style, Green agriculture, sustainable housing & investing in green tech should also be adopted by India for more investment in green finance & sustainable finance.<sup>8</sup>

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<sup>8</sup> About make in India, '5 Sustainable Green Initiatives that India can learn from Sweden'. , <https://www.makeinindia.com/five-sustainable-green-initiatives>> accessed 24 September 2020