GREEN FINANCE

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What is Green Finance?

Green finance refers to financial arrangements designed specifically for environmentally sustainable projects or projects that address aspects of climate change. These projects include energy production from renewable sources such as solar, wind, and biogas, as well as clean transportation with lower greenhouse gas emissions, energy-efficient projects like green building, and waste management solutions that involve recycling, efficient disposal, and energy conversion.

(Source: RBI Bulletin January 2021: https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/04AR_2101202185D9B6905ADD465CB7DD280B88266F77.PDF)

Instruments used in Green Finance:

The following are some examples of instruments used in Green Finance:

- Green Mortgages: Mortgages for energy-efficient homes, with lower interest rates or longer repayment terms for properties meeting energy efficiency standards.
- Green Loans: Loans for environmentally sustainable projects with lower interest rates or better terms than traditional loans.
- Green Credit Cards: Credit cards offering rewards or cashback for eco-friendly purchases, with rewards that support conservation or sustainable initiatives.
- Green Banks: Financial institutions committed to investing in environmentally sustainable projects, offering financial services that support sustainable economic development and reduce carbon emissions.
- Green Bonds: Debt instruments issued by organizations to finance environmentally sustainable projects, typically used for renewable energy and energy-efficient buildings and gaining popularity due to increasing demand from investors seeking sustainable investments.

Out of the all the above instruments, the Green Bonds are one of the most popular instruments in Green Finance. China is one of the leading players in terms of issuance of Green Bonds.

(Source: EMERITUS: https://emeritus.org/blog/finance-what-is-green-finance)

Conclusion about Green Finance:

In conclusion, there is still a vast untapped potential in the domestic green finance market due to the relatively small penetration of green instruments. To fully realize this potential, there is a need for increased coordination between investment and environmental policies and an implementable policy framework at both national and state levels to address existing frictions. Policy measures such as deepening the corporate bond market, standardizing green investment terminology, consistent corporate reporting, and removing information asymmetry between investors and recipients can help address some of the shortcomings of the green finance market. Overall, there is a need for continued efforts to promote green finance and ensure that it can play a significant role in supporting sustainable economic development.

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