POLITICAL ECONOMY OF GREEN FINANCE: ANALYSING ITS EFFECT ON THE DEVELOPMENT OF LEGAL FRAMEWORK

Haran C, O.P. Jindal Global University

ABSTRACT

The financial sector plays a vital role in the global fight against climate change by reducing climate change-related risks and mitigating the impact of catastrophic climatic occurrences. Institutional investors with a long-term outlook may help rebalance and redistribute “climate-related threats” and maintain financial stability. The purpose of this research study is to review the political economy of green finance by identifying the gaps that are now present in the regulatory and legal framework of investments, particularly those made via green bonds. In addition to this, it attempts to explain certain corporations' business strategy, which consists of raising capital by misleading their investors and customers into believing that their product is environmentally friendly. This study relies on secondary methodologies in its approach, and the scope of the study is limited to India.

Keywords: Green finance, Green bonds, Regulatory framework, Greenwashing.

INTRODUCTION:

In a world led by capitalist and imperialist minds, there is a need for sustainable development for a planet to exist for future generations. To fulfil the needs of such sustainability, a sense of responsibility is created among the corporations and the investors who invest in the corporations. In recent years, there has been a new trend in the corporate world that focuses on raising capital for business expansion and maintenance. On the other hand, the requirements of investors, who typically seek a return on their investments, have also been met. This trend is the shift toward green finance through the issue of "green bonds", etc., by corporate entities and governments in an effort to support sustainable development. This trend has gained popularity in addressing the issue of climate change and other environmental concerns.

At the 2021 United Nations Climate Change Conference (COP26), it was known that the Prime Minister of India stated that India would attain Net Zero carbon emissions by 2070. In its most basic form, the concept of "net zero" refers to a circumstance in which the amount of global greenhouse gas emissions caused by human activity is equivalent to the reduction of emissions. At the level known as net zero, carbon dioxide emissions are still produced; however, the same quantity of carbon dioxide is removed from the atmosphere and released into it, resulting in no increase in the net amount of emissions.[1] According to the Council on Energy, Environment, and Water (CEEW), to reach net-zero emissions by the year 2070, investments of more than $10 trillion will be required. These investments would assist in lowering India's carbon emissions in the energy, industrial, and transportation sectors. For India to reach net-zero emissions, the CEEW projected that the country could face a significant investment shortage of $3.5 trillion.[2] The concern is how they will obtain funding.

Consequently, to achieve the goals of sustainable development (environmentalism) and the company (capitalism) simultaneously, concepts such as "green finance," "climate finance," and "sustainable finance" are beginning to overlap. So, what do these terms mean? These terms may look similar, but each has its way of interpretation; Climate financing provides funds for climate change adaptation and mitigation and might be regarded as a subset of green finance, although green finance encompasses a more extensive broad range of environmental objectives

---

[1] Johnny Wood, *what do net-zero emissions mean and how can we get there?* [Nov 9 2021], world economic forum.
[2] Amitabh Chaudhry, *Green finance can bolster India's transition to net zero Here's how*, [Jan 5 2022], world economic forum.

like "biodiversity-protection". If you take Green Finance, there are no specific definitions for these terms; however, one can say that "It is a structured financial activity, product, or service established to promote environmental sustainability. It consists of various loans, financing debt instruments, and investments intended to promote the development of green projects or mitigate the environmental impact of conventional projects."[3] One can assert that money has been invested globally, typically in sustainable activities that provide significant environmental benefits and decent profits. It may involve investments in renewable energy, appropriate waste management, or initiatives that enhance biodiversity projects or reduce greenhouse gas emissions. It may also involve financing schemes to combat deforestation and reduce pollution. It may refer to "green lending," which is the lending of funds to sustainability projects, or "green equity investment," which is the purchase of shares in companies that benefit the environment. Green finance grows as governments and businesses try to reduce carbon emissions as the international community strives to comply with the Paris agreement, 2016 (from now on Paris accord) on climate change.

However, there are concerns over the viability of accomplishing such a mammoth task as raising funds. Are there sufficient regulations in place to oversee these sorts of investments? What happens if the company deceives its investors and consumers by claiming that its product is environmentally friendly and raises money? (Greenwashing) And what, exactly, do we mean when we say "green"?

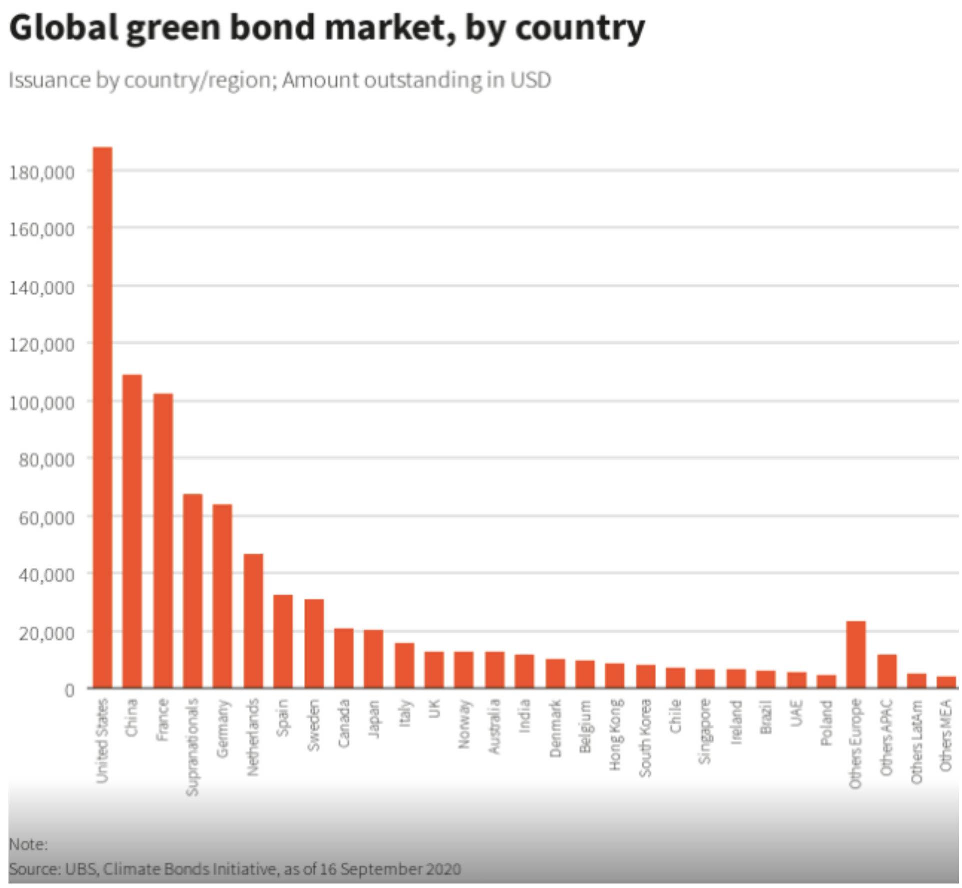
The purpose of the research paper is to respond to the questions mentioned above; therefore, the first half of the research will be focused on fundraising techniques and applicable legislation. The second section of the paper will concentrate on greenwashing.

GREEN FINANCE AND GREEN BONDS- GAPS AND RECOMMENDATIONS IN THE REGULATORY FRAMEWORK:

There is a possibility that "Green finance" is entering a golden era of innovation. Each year sees the emergence of new securities and investment structures around the globe. The concern is whether such innovation promotes a market where risks and rates of return are entirely transparent, comparable, and accessible in a manner that can be consistently monetised. The

[3] Sean Fleming, *what is green finance and why is it important?* [Nov 9 2020] world economic forum.

risk-reward dilemma is prevalent and challenging for individuals who invest in green finance.[4] The foundation has been laid for a brand-new sustainable financial system. It enhances the efficacy of governments' climate policies and supports the ideas and inventions of the private sector; it might even hasten the transition to an economy with lower levels of carbon emissions.[5] This system involves the global issuance of green bonds to generate funds for environmentally friendly projects to combat climate change and establish a precedent for sustainable development. However, much like almost every other aspect of the approach to climate change, the new sustainable finance system is not increasing rapidly enough in developing countries for the world to attain net zero emissions. According to the UBS 2020 report, the United States, China, and France are the leaders in issuing green bonds.



4 Afsaneh Beschloss, Mina Mashayekhi, *A Greener Future for Finance Green bonds offer lessons for sustainable finance, finance & development*, [Dec 2019], vol. 56, no. 4.
5 Mark Carney, *Fifty Shades of Green, finance & development*, [Dec 2019], vol. 56, no. 4.

India, a developing economy with a population of 1.3 billion people, is the world's 3rd largest greenhouse gas emitter which still needs infrastructural development. India requires a sizable budget allocation, foreign financing from bilateral and multilateral sources, and green private investments to accomplish its climate goals and finance its green transformation. India must enhance its capacity to obtain and provide climate finance from all available sources. One needs access to various resources, public and private sector engagement using the PPP model, and appropriate financing structures to raise green money. To achieve sustainable growth in India, it is necessary to broaden the scope of financial holdings and facilitate the mobilisation of private capital.

In 2017, the Securities and Exchange Board of India (from now on, SEBI) made it possible for Indian corporations to raise money via green bond issuance and enforce relevant disclosure mechanisms. These norms were primarily based on the "Green Bond Principles" drafted in 2014 by the "International Capital Markets Association" (from now on, ICMA). Only projects with an environmental objective, such as "renewable-energy", "clean-transport", or "sustainable-agriculture", are eligible to receive funding via the issuance of green bonds. Both the money generated and the monies spent must be used exclusively for the same goal, which may include water or waste management, energy efficiency, or adaptation to climate change. Because the eligibility requirements are mentioned clearly, there is a good chance that many businesses will not be able to issue green bonds to finance their transition to clean energy if their investments in carbon assets are very long.

The lack of a green taxonomy and an assessment and rating process may be responsible, at least partly, for the delayed uptake of green bonds. The issuance of green bonds may be increased if the restrictions already in place are made less exclusive and the requirements for the "use of proceeds" are widened. Methods of credit enhancement such as the establishment of guarantee funds, the issuance of sovereign green-bonds, the provision of hedging assistance, and the provision of tax benefits for such bonds would further encourage the usage of this instrument.[6] The Indian Banks Association has only proposed voluntary guidelines for responsible banking that Indian banks can follow. These guidelines suggest that Environmental, Social, and Governance (from now on, ESG) aspects should be incorporated into banks' investment, lending, and risk management procedures. During the annual budget session, the Government of India announced that it would issue sovereign green bonds in 2022-

[6] *Green Finance in India*, India CSR [Mar 21, 2022]

2023 to mobilise resources for green infrastructure.[7] These bonds would be an effective tool for raising capital at a lower cost for various environmentally sustainable projects in multiple sectors.[8] They would further facilitate the development of India's green finance market. The International Financial Services Centre like “Gujarat International Finance Tec-City” (from now on GIFT-City) in India would also be an appropriate framework for channelling foreign capital for sustainable financing, even for long-term financing, because it provides a platform within India where foreign currency can be accessed with low tax impact, trading exchanges for all asset classes are available, and innovative financial products and debt financing structures can be explored with regulatory support and transparency. To attract foreign portfolio investors (FPIs) and encourage foreign debt financing for green or environmentally sustainable projects, there should be a relaxation in the regulations applicable to external commercial borrowings. This relaxation should include relaxations from restrictions on the maturity period, pricing caps, use of proceeds, and withholding taxes, amongst other things.

The Reserve Bank of India (also known as "RBI"), the country's central bank, became a member of the Central Banks and Supervisors Network for Greening the Financial System (also known as "NGFS") in the month of April 2021. Initiated in 2017 during the 'One Planet Summit in Paris, the NGFS is a worldwide network of banks striving to promote best practices for climate risk management.[9] Currently, the Reserve Bank of India (RBI), along with several other regulatory bodies, is investigating the practicability of green finance and its potential to facilitate a transition toward sustainable economic development. In addition, the Indian green bond framework is governed by laws and recommendations established by the Indian securities regulator, the Securities and Exchange Board of India ("SEBI").

The SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 define Green-Debt Security as “funds raised through debt securities, utilised for the projects and assets falling under any of the following broad categories: Renewable energy (including wind, solar, bioenergy, and any other energy sources using clean technology); Clean transportation; Sustainable water management systems; Energy efficient and green buildings; Sustainable waste management; Biodiversity conservation; and Any other category specified by the SEBI,

[7] *Key Features of Budget 2022-2023*, ministry of finance Budget division, [Feb 2022].
[8] *Union Budget 2022-23 Analysis*, PRS legislative research
[9] Varsha S. Banta, *Growing Green Finance in India: A Review of Green Bond Principles, Indian Green Debt Securities and ESG* [May 13 2022]

from time to time."[10] Additionally, the legislative framework on green debt securities, referred to as the "SEBI Green Framework," is now accessible on the SEBI's official webpage. Therefore, one may make the case that the "SEBI Green Framework" is analogous to the Green Bond Principles by ICMA. Governments are also establishing frameworks for sustainable corporate responsibility, primarily via the "ESG" aspect, along with improvements to finance regulatory frameworks. Typically, the "ESG" aspect is a non-financial aspect that identifies investment possibilities and difficulties.

"GREENWASHING", "GREEN" AND ITS IMPACT:

When discussing issues pertaining to environmental, social, and governance concerns, the subject of greenwashing has emerged as a problem not only at the domestic level but also in the international arena. Greenwashing creates the impression to the consumers that a company's products are more environmentally friendly than they are, provide misleading information, or have a more significant positive effect on the environment than they actually do. Additionally, greenwashing may occur when a company desires to highlight a product's sustainable qualities to hide the fact that the company is involved in practices that are harmful to the environment. Greenwashing is a word that plays on the term "whitewashing," which refers to utilising misleading information. Greenwashing is performed via environmental imagery, misleading labelling, and hidden trade-offs.[11] Some of the world's largest carbon polluters, including traditional energy businesses, have lately moved to reposition themselves as environmental warriors. The renaming, rebranding, or repackaging of products constitutes greenwashing. Greenwashed items could portray that they are more natural, healthy, or devoid of chemicals than rival brands. Greenwashing is deceptive and unethical since it deludes investors and customers genuinely interested in eco-friendly firms or goods. Green goods are often marketed at a premium, which makes them more costly and may cause customers to overpay. Greenwashing may severely harm a company's image and brand if discovered.[12] Greenwashing is deceptive and unethical since it deludes investors and customers who are genuinely interested in eco-friendly companies or goods. In many cases, environmentally friendly items are offered at a premium, which makes them more costly and may cause customers to overpay for them.[13]

[10] Rule 2 (q) of *The SEBI (Issue and Listing of Non-Convertible Securities) Regulations*, 2021
[11] Will Kenton, *What Is Greenwashing? How It Works, Examples, and Statistics*
[12] *ibid*
[13] Rajiv Tikoo, *Beware of Greenwashing* [21 May 2022].

Greenwashing may severely harm a company's goodwill if discovered.

The Securities and Exchange Board of India (SEBI), which is in charge of regulating market activity, has recently established an advisory panel on Environmental, Social, and Governance concerns where it barely touches upon the disclosure mechanism to mitigate the risk of “mis selling” and “greenwashing.” One can say that in India, there are no laws that specifically address the issue of “greenwashing.” Except for some self-regulatory mechanisms by way of corporate social responsibility and corporate governance principles.

Customers will undoubtedly question a company's reputation and integrity if it makes false statements. Using the word "green" beyond a certain extent of exploitation might distort the consumer's understanding of the term itself. Another crucial cause is the ignorance and knowledge gap between consumer and environmental understanding. The problem with this situation is that genuine green businesses would lose their competitive footing.[14] This enormous problem is not only present in developing countries such as India but also in developed countries such as the United States, the United Kingdom, etc., as evidenced by a 2021 report from the Changing Markets Foundation that examined clothing from major high-street fashion brands to determine the genuineness of their sustainability claims and found that 55% of claims were overall misleading. H&M was revealed to be the biggest offender, with a frightening 95% of its statements proven to be false. To put it another way, almost all of the statements made by the Scandinavian Fashion Giant were intended to mislead consumers who were concerned about their impact on the environment into making purchases. Also, there aren’t any clear national or international standards to define the term “green project.”

CONCLUSION:

Based on the deliberations, India's green finance regulatory framework is inadequate and more of a self-regulation approach. By claiming that India would have net-zero carbon emissions by 2070, the government of India seems to be engaging in greenwashing, as the measures implemented are either inadequate or ineffective. Green investments must be subject to a mandated regulatory framework, and investors must be made aware of the strategies used by certain companies to mislead their investors. Therefore, in an era in which investors and consumers are interested in the investment and consumption of environmental goods and

[14] Raja Mukherjee, Indranath Ghosh, *Greenwashing in India: A Darker Side of Green Marketing, The International Journal Of Business & Management*, ISSN 2321 –8916.

companies, the government and corporations develop a sense of ethical responsibility not only to achieve net zero emissions but also to protect investors and consumers from deceitful industries.

BIBLIOGRAPHY:

1) Johnny Wood, what do net-zero emissions mean and how can we get there? [Nov 9 2021], world economic forum.

2) Amitabh Chaudhry, Green finance can bolster India's transition to net zero Here's how, [Jan 5 2022], world economic forum.

3) Sean Fleming, what is green finance and why is it important? [Nov 9 2020] world economic forum.

4) Afsaneh Beschloss, Mina Mashayekhi, A Greener Future for Finance Green bonds offer lessons for sustainable finance, finance & development, [Dec 2019], vol. 56, no. 4.

5) Mark Carney, Fifty Shades of Green, finance & development, [Dec 2019], vol. 56, no. 4.

6) Green Finance in India, India CSR [Mar 21, 2022]

7) Key Features of Budget 2022-2023, ministry of finance Budget division, [Feb 2022].

8) Varsha S. Banta, Growing Green Finance in India: A Review of Green Bond Principles, Indian Green Debt Securities and ESG [May 13 2022]

9) Will Kenton, What Is Greenwashing? How It Works, Examples, and Statistics

10) Rajiv Tikoo, Beware of Greenwashing [21 May 2022].

11) Raja Mukherjee, Indranath Ghosh, Greenwashing in India: A Darker Side of Green Marketing, The International Journal Of Business & Management, ISSN 2321 –8916.