A climate for green funds-Removing regulatory constraints can encourage investments in low-carbon projects

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Highlights

- The impact of climate change are no longer risks that exist in the distant future.
- A recent HSBC Global Research report found India to be the most vulnerable of the 67 countries assessed for their vulnerability to and preparedness for climate change risks.

A climate-resilient economy cannot be a priority only for the government. Companies, regulators, banks and financial institutions need to be part of the effort.

Issues related to Climate Finance

- The government aims to source 175 GW of power from renewables by 2022 and for nearly 57 per cent of total electricity capacity to come from non-fossil fuels by 2027. All of this will require billions of dollars worth of investments.
- It has been estimated that approximately $100 trillion of additional investment will be required between 2016 and 2030 to sync the imperatives of global development with that of addressing the challenge of climate change.
- Financing clean energy infrastructure, sustainable transport, energy efficiency and waste management are among the key imperatives today. Growth and diversification of the market remain key targets.
- Banks and financial institutions are key intermediaries between investors who are keen to put more of their cash into low-carbon, sustainable projects and those requiring capital.

Globally, green finance is gaining prominence as a medium to raise funds for environment-friendly and climate-resilient projects. The appetite for green investment opportunities is growing with European and US investors, in particular, committed to increasing their climate-related holdings.

In India the concept of green financing is nascent.

- Take the green bond market. Green bond issuance in India rose sharply last year — to more than $4 billion from $1.3 billion in 2016, according to data provider Dealogic.
- Measures to encourage green-bonds could help raise finances needed to "green" India's economy.

Possible Measures

- These could include steps to reduce some of the regulatory constraints that currently hamper international investments as well as local pools of capital.
- There is scope for guidelines asking provident funds, pension funds and insurance companies to invest a portion of their assets under management in green bonds.
- The government could offer tax incentives to encourage mutual fund and other onshore investors to invest in local green bonds.
- Currently, there is no incentive for onshore investors to buy labelled green bonds or make green investments.
- India could also look at issuing a sovereign green bond, like France did to great effect last year. This would help push climate-change considerations into the limelight and provide a welcome market benchmark.
- Diversifying the green bond market beyond project finance assets into corporate loans, and working more with mid-sized companies (mid-cap market), will go a long way towards building up the green financing ecosystem.
- Allowing banks to claim "priority sector benefits" on their green investments would also help.

Steps such as these could help India to draw in more of foreign capital.This would be especially welcome given that global investors are increasingly factoring climate change into their assessments of a country's overall economic performance.

Amid all the issues that concern us — poverty, education, employment, health — it is easy to forget that global warming is one of the most critical challenges we face which needs to be done a lot more and a lot sooner or risk an environmental crisis.

Source: The Indian Express