

Green Finance – Crucial for accomplishing SDG (7, 11, 13 and 15) and Strategies for Sustainable Investment

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ABSTRACT:

Green Finance is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage development of sustainable economy. SDG (Sustainable Development Goals) created by UN also includes green finance as a part of its 2030 Agenda. Today most of the world economies are dependent upon Non-Renewable sources of Energy for ex: Dependence on fossil fuels for energy requirements, hence need for eco-friendly solutions arises which can be developed through Green Finance. Our objective is to know more about sources of Green Finance such as green bonds, Green Banks, Green investments, risks associated with green financing, ways in which they will boost economy while reducing carbon foot print, potential returns, strategies for investments. Systematic research was carried out by collecting data, organising and evaluating its authenticity so as to get insights of green finance and sustainable investment strategies. A thorough study of topic and execution of strategies can revolutionise economy and increases economic growth rate while sustaining environment. Entrepreneurs working under this space can easily raise funds and investors having knowledge of risks and rewards can make sensible investments.

Keywords: Green Finance, SDG, Green Bonds, Economic growth rate, sustainable investment strategies

INTRODUCTION:

The 17 Sustainable Development Goals (SDGs) set by the UN for achievement by 2030 include four key goals that heavily rely on green finance: SDG 7 (Affordable and Clean Energy), SDG 11(Sustainable Cities and Communities), SDG 13 (Climate Action), and SDG 15 (Life on Land). Green finance is crucial in advancing these objectives, serving as a fundamental pillar for their success. Green finance and sustainable investment have become increasingly significant in recent years, attracting considerable attention from both retail and institutional investors. This sector is no longer merely an option but a necessity, given its potential for substantial growth. It offers opportunities for investors to achieve favourable returns while supporting green growth and a sustainable future. However, like any investment, green finance comes with its own set of challenges and risks. This research paper examines various strategies and opportunities for investing in or financing green projects, along with the associated risks. It considers the perspectives of retail and institutional investors, as well as lenders and non-banking financial companies (NBFCs), in the pursuit of generating returns and contributing to a greener, more sustainable future.

REVIEW OF LITERATURE:

G20 green finance study group report highlights-

Challenges: That identifies barriers to scaling green finance, for instance externalities, illiquidity, unclear “green” definitions, information asymmetry and poor analytical capabilities.

Capacity Building: This recommends expanding learning networks and improving the measurement of green finance activities and impacts.

Policy Signals: It should be noted that countries ought to give strategic policy signals and frameworks that stimulate green finance growth.

International Collaboration: It underlines the need for international cooperation in order to facilitate cross-border investment in green bonds as well as share knowledge on environmental and financial risks.

Local Green Bond Markets: International organizations, development banks and market bodies should back the creation of local green bond markets.

Ellen MacArthur Foundations (2023) glossary includes definitions for terms like recycle, reverse logistics, finite resources, virgin and non-virgin materials, renewable materials, biological and technical cycles, reuse, refurbishment, and remanufacturing. It aims to aid understanding within organizations, facilitate collaboration, and support reports, strategies, and communications. Dominique Fularski of Inter IKEA Group emphasized the importance of a shared language for effective discussion, learning, and collaboration in transitioning to a circular economy.

Global sustainable investment assets account for \$30.3 trillion. In the case of non-US markets, investments in sustainable development have increased by 20% since the year 2020. By and large, Europe, Australia and New Zealand, Asia ex-Japan were all areas to witness growth in absolute values of sustainable investing assets, reflecting broader market expansion. This was the only region that achieved positive growth in terms of sustainable investing as a percentage of total managed assets. The most common approach taken by investors on a global scale is corporate engagement/ shareholder action closely followed by ESG integration and then negative or exclusionary screening- Global Sustainable Investment Alliance (2023). Global Sustainable Investment Review 2023

Sreenu Nenavath in his paper Impact of green finance and fintech on sustainable economic growth: Empirical evidence from India highlights-

- Using GPCAM, it assesses green finance across five parameters and sustainable growth through environmental quality, economic effectiveness, and economic system.

- Findings show green finance significantly boosts sustainable growth by positively impacting all three areas.

- Policy implications:

1. Promote fintech alongside green finance.
2. Create a comprehensive ecological disclosure framework.
3. Develop short-term and long-term policies for green finance.

RESEARCH GAP:

Despite the growing trend and significant interest in green finance and investment from investors and financial institutions, there remains a limited amount of research focused on this area. Specifically, there is a lack of studies that offer strategies for mindful investments that balance good returns with calculated risks while contributing to a greener future and environment. This paper aims to address this gap by examining the potential risks and strategies for investing in green projects from both retail and institutional perspectives.

OBJECTIVES OF STUDY:

The primary objective of this paper is to provide insights into various investment arenas, including:

1. Green finance and its associated investment strategies.
2. Risk and return strategies from the perspective of retail investors.
3. Risk and return strategies from the perspective of institutional investors, lenders, and non-banking financial companies (NBFCs).

RESEARCH METHODOLOGY AND DATA COLLECTION:

The research incorporates both qualitative and quantitative data, primarily gathered from secondary sources such as company websites and the NSE India website. The analysis includes a detailed examination of the returns generated over the past year from companies like, Waaree Renewables, Adani green as well as bonds and funds launched by various mutual funds and government entities, focusing on the retail investing category. Additionally, it considers even the perspectives of NBFCs and institutional investors and lenders.

DATA ANALYSIS:

The data has been split into two sections based on retail and institutional perspectives, considering all aspects of investment or lending with a focus on potential risks and returns. It also highlights a commitment to societal improvement and advancing towards a greener, cleaner environment.

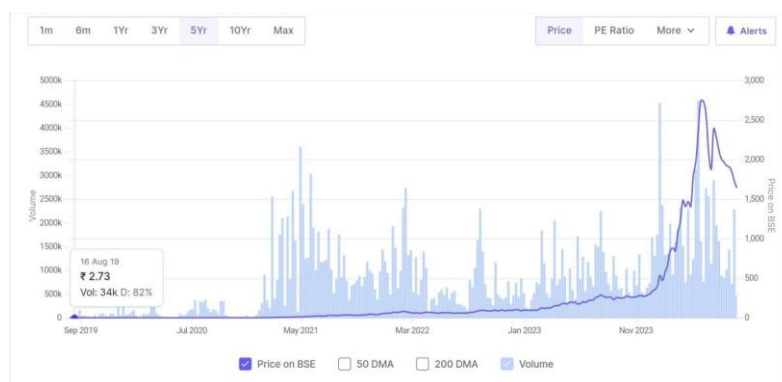
SCENARIO-1-FROM RETAIL INVESTORS POINT OF VIEW-

The various strategies and risks associated with investing in green finance are given below as-

STRATEGIES-

- 1) **Green Bonds (Moderate risks and returns):** These fixed-income securities are issued by governments, corporations, and international organizations to specifically fund green projects. They operate similarly to traditional bonds but focus on delivering environmental benefits.
- 2) **Green Investment Funds (Moderate risks and returns):** These funds pool capital from investors to invest in companies and projects that align with ESG principles. They provide investors with diversification and access to a broader range of green investment opportunities.
- 3) **Directly Investing in the Equity Shares of Green Energy Companies (Higher risks and returns):** A brief fundamental analysis of two companies, Waaree Renewables and Adani Green, to evaluate and identify potential risks and returns in this sector.

a) WAAREE RENEWABLES –



Incorporated in 1999, Waaree Renewables Technologies Ltd is engaged in the generation of power through renewable energy sources and offers consultancy services in this field. Waaree Energy is one of the largest vertically integrated new energy companies, boasting India's largest solar panel manufacturing capacity of 12GW at its plants in Chikhli, Surat, and Umbergaon in Gujarat.

The chart presented shows the pricing data of Waaree Renewables Ltd from the past five years. A significant increase in the price per equity share can be observed from 2019 to 2024, rising from ₹ 2.73 to an all-time high of ₹ 3037.35. As of July 29, 2024, the current price is ₹ 1643.50, offering investors significant returns of 52916.13%. This indicates great potential in the renewable energy sector, which is currently trending.

However, it's important to note that the price remained stable, fluctuating between ₹ 2 and ₹ 3 for more than three years, suggesting that investors' money was blocked or idle without returns during that period. This sector has recently gained significant global attention, indicating more potential and scope, presenting a lucrative investment opportunity.

Nonetheless, the price has fallen from its all-time high of ₹ 3037.45 to ₹ 1643.50, a significant drop of around 40%. This decline suggests that many investors who bought at higher valuations, perhaps driven by FOMO (fear of missing out), might have either lost money or have their funds blocked, waiting for prices to rise again.

b) ADANI GREEN –



Adani Green Energy Limited, incorporated in 2015, is a holding company managing various subsidiaries engaged in renewable power generation. The company focuses primarily on renewable energy and related activities.

The chart above illustrates Adani Green Energy Limited's stock price over the past five years, showing a substantial increase from ₹50 in 2019 to an all-time high of ₹2882.80 in 2024. As of July 29, 2024, the current price stands at ₹1837.90, representing significant returns of 3822.95%. This highlights the strong potential in the trending renewable energy sector.

From 2018 to 2019, the share price remained stable between ₹50 to ₹100. A sharp increase followed, reaching ₹2882.80 within the next three years. However, following a report by Hindenburg Research accusing the Adani Group of share price manipulation, the stock plummeted by approximately 75%, dropping from ₹2882.80 to around ₹500. The price has since recovered as the company's financial performance improved, disproving Hindenburg's allegations and showcasing Adani as a formidable entrepreneur.

This scenario underscores the importance of promoters and promoter holdings in investment decisions. One piece of bad news or a challenging quarter for a company with strong promoters can present a valuable investment opportunity for investors.

SCENARIO-1-FROM NBFC'S AND FINANCIAL INSTITUTIONS POINT OF VIEW-

Green energy projects typically involve significant capital expenditure (CapEx) upfront. These projects often require a substantial initial investment and can take more than five years to complete and start generating revenue. There is inherent uncertainty about whether the specific project will be profitable or achieve its revenue and capacity targets. Due to these factors, financial lenders need to exercise heightened caution and diligence when considering loans for such projects. The strategies and potential risks associated with green energy projects are outlined below.

STRATEGIES -

1. **Comprehensive Feasibility Studies:** Conduct detailed feasibility studies to evaluate the project's viability, covering technical, financial, and environmental factors.
2. **In-Depth Financial Modeling:** Create detailed financial models to forecast potential revenues, costs, and returns on investment, incorporating various scenarios and sensitivities.
3. **Risk Mitigation Plans:** Develop strategies to mitigate risks such as project delays, cost overruns, and technological issues.
4. **Strategic Partnerships and Joint Ventures:** Collaborate with experienced partners or form joint ventures to share expertise, costs, and risks.
5. **Utilization of Government Incentives:** Leverage government incentives and subsidies for renewable energy projects to enhance financial feasibility.
6. **Ongoing Monitoring and Reporting:** Set up regular monitoring and reporting systems to track project progress, financial performance, and compliance with targets.

POTENTIAL RISKS -

1. **Project Delays:** Construction or implementation delays can postpone the start of revenue generation, impacting financial returns.
2. **Cost Overruns:** Unexpected increases in costs can undermine the project's financial feasibility and profitability.
3. **Revenue Uncertainty:** There is a risk that the project may not achieve the expected revenue or performance targets, which can impact investor confidence.
4. **Technological Risks:** The chosen technology might not perform as anticipated or could become outdated.
5. **Regulatory Changes:** Modifications in regulations or policies related to renewable energy may affect the project's feasibility and profitability.
6. **Market Fluctuations:** Variations in market conditions, such as shifts in energy prices, can influence revenue projections and overall financial outcomes.

FINDINGS AND CONCLUSIONS –

1) RETAIL INVESTORS POV –

EFFECTIVE STRATEGIES – investments in

Green Bonds (Moderate risks and returns)

Green Investment Funds

Directly Investing in the Equity Shares of Green Energy Companies (Higher risks and returns) with calculated and informed risk decisions.

POTENTIAL RISKS – Investing in FOMO

Investing At Higher Valuations

Investing without Correct Promoters check.

2) INSTITUTIONAL AND NBFC'S POV –

EFFECTIVE STRATEGIES – Investing with proper

Comprehensive Feasibility Studies

In-Depth Financial Modelling

Risk Mitigation Plans ETC.

POTENTIAL RISKS – Investing with correct proper analysis of

Project Delays

Cost Overruns

Revenue Uncertainty ETC.

CONTRIBUTION:

The study seeks to offer valuable insights for both retail and institutional investors on green investing strategies. It emphasizes the importance of taking calculated risks and making informed decisions, with the goal of advancing towards a greener world. Ultimately, it aims to contribute to creating a better living environment and preserving resources for future generations.

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