



## Finance for green growth and innovation

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**(MainsGS3: Conservation, Environmental Pollution and Degradation, Environmental Impact Assessment.)**

### **Context:**

The **COP26 summit** propelled several countries to scale up their climate ambitions and particularly marked a turning point for India, with a commitment to achieve carbon neutrality by 2070.

### **Create right domestic conditions:**

- India expects around US\$1 trillion in climate finance to meet its bold climate targets however, so far, promises on climate finance have been hollow but hopefully soon it will translate into actual actions from global investors.
- India must focus on creating the right domestic conditions to actually absorb these investments as the present fiscal and taxation structure does not provide the right signals to direct investment to the green sectors.
- Further actions are also needed to address some of the long-term impacts of the green transition, such as the evolving dynamics of green supply chains.

### **Reduce tax:**

- Foreign banks located in India are well placed to act as an effective conduit to global commercial capital, which can be leveraged for investments in green sectors.

- However, foreign banks in India pay a significantly higher tax than their domestic counterparts as the differential serves RBI's objective of encouraging foreign banks to set up wholly-owned subsidiaries in the country.
- In line with the global practice of corporate tax parity, the differential between the corporate tax levied on branches of foreign banks and domestic banks should be reduced to ensure parity.
- This will encourage foreign entities to consolidate and even expand their operations in India, enabling a greater influx of global commercial capital.
- This move should be supplemented with efforts to encourage foreign banks to invest in green sectors using the priority sector lending mechanism; for example, a certain percentage should be reserved for clean-tech companies in the overall start-up lending bracket.
- This will give an impetus to innovation and invention of scalable green technologies, which hold the tremendous potential to expedite our efforts in combating climate change.

#### **Representative carbon tax:**

- A carbon tax sets a price on carbon by defining an explicit tax rate on the carbon content of fossil fuels.
- It is considered an effective way to reduce carbon emissions; however, it continues to remain a contentious subject in India given its political unpopularity, and as it involves a very complex and tedious tax system.
- The government should work for a national carbon tax, directly linked to the intensity of carbon emissions in fuels as this will send the right price signals to producers, investors, and consumers to shift towards cleaner sources of energy.
- Such a tax can also improve the tax-GDP ratio and generate additional funds, which can be utilised for offsetting the burden of the tax on low-income groups and facilitate greater investments in green and environmental projects.

#### **Accelerating Innovation:**

- The supply chain for green technologies continues to remain import dependent; thus' India needs to rapidly indigenise the green manufacturing value chain for the green transition to spur economic growth.
- To this end, the Union government has already implemented important performance linked incentive (PLI) schemes related to electric vehicles, battery manufacturing, and solar PVs.
- The aim is to provide sales-based incentives for firms manufacturing these technologies at scale.

#### **Encourage indigenous designs:**

- In addition to indigenous manufacturing, India also needs to encourage indigenous designs as by designing its own green products, the country can bypass the various intellectual property issues associated with foreign technologies while also reducing costs and maximising the use of raw materials most suited to India.
- This will be crucial to ensure that the green transition does not increase our dependence on a small set of countries who control the technology and raw materials at present.

### **Change the thought process:**

- Design engineering is systemically undervalued in India with government funding for R&D remains scarce, and jobs related to core engineering are on the decline.
- Allocating funding to set up Centres of Excellence or government-funded incubators for start-ups could also spur innovation.
- However, there needs to be a change in the thought process towards 'designing in India'; thus some strong initiatives need to be taken for making development sustainable.

### **Conclusion:**

India needs to send out a strong signal to the global investor community that India is ready to take a big leap in our mitigation efforts.