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Green Finance Initiatives Adoption - Challenges for SMEs

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ABSTRACT

In the current context, the Indian economy's entire functioning could be transformed by the green economy. It is the only thing that can support the nation's sustained development.Green financing is necessary to green the economy. In order to reduce their negative environmental impact and turn their operations green, SMEs must implement the Green Finance Initiatives (GFIs). Initiatives related to green finance encourage economic investments that lessen their negative effects on the environment and support sustainable development. Businesses, financial institutions, and the government must all take into account and take actions that will support the SME sector's transition to a more environmentally friendly one. The goal of the study is to list the several obstacles and difficulties that arise when GFIs are adopted.

Keywords: Sustainability, Indian SMEs, Green economy, Green financing, Green finance initiatives

INTRODUCTION

When it comes to the Indian setting, the MSME's role is important for the economic development at the local level. Over 111 million individuals are directly or indirectly employed by these SMEs. The government's emphasis on assisting SMEs in growing, the accessibility of easy and subsidized loans, the low capital requirements, and the abundance of job possibilities are the main reasons why SMEs are so popular. This industry has a lot of potential if manufacturing and consumption practices become more environmentally friendly and sustainable. This is because environmental deterioration lowers the performance and operational excellence of SMEs. The industries most impacted by climate change are those that deal with fisheries, agriculture, and food processing. These industries might suffer from unsustainable production and consumption practices, which can also have a negative effect on SMEs and the whole economy of the country.

It is a well-known truth that SMEs are essential to developing nations and to the creation of job opportunities. In addition, SMEs serve as the centers of innovation and entrepreneurship. SMEs' embrace of greener technologies has the potential to have enormously beneficial effects down the road. The integration of environmental friendliness, economic efficiency, and societal wellbeing would be facilitated by the use of greener technologies. Small and medium-sized environmentally friendly businesses should concentrate on developing their operations on the tenets of sustainable development, waste management, and resource conservation as these are essential to the growth of the green economy. For SMEs, implementing environmentally friendly technologies and practices can be difficult since they lack the necessary funding, awareness, and expertise. In addition to the infrastructure issues, SMEs often face financial difficulties that are not met, which deteriorates their health and casts doubt on their ability to survive and expand. In order for SMEs to grow and create cutting-edge products, financing is essential. The different financial needs of MSMEs and other industries should be met by the financial institutions. With regard to funding, the Small Industries and Development Bank of India (SIDBI) has taken a number of initiatives to optimize the uptake of environmentally friendly technologies within the SME industry. It has been crucial in promoting the advantages of adopting green technologies under bilateral lines of credit from nations like Germany and Japan. The programs supported by SIDBI employ a two-pronged approach: first, they provide concessional loans to incentivize investments in environmentally friendly technologies; second, they release targeted information, advising SMEs to adopt suitable technologies in order to optimize energy conservation. To encourage the use of greener technology SMEs place great emphasis on three main areas of operational importance: reduce (waste), reuse, and recycle. These methods pave the way for creative initiatives that might call for additional grassroots effort. The principles of reduction, reuse, and recycling are fundamental to the application of clean technologies; any sector that does not comprehend these three ideas will not be able to take advantage of the benefits or opportunities that these technologies offer to SMEs. It has been observed that SMEs that do not follow the fundamental ideas of Reduce, Reuse, and Recycle—or show opposition to implementing these ideas—fall behind in their efforts to upgrade and modernize. In order to address the issue of non-implementation, SIDBI has been providing a number of schemes that have the potential to be extremely important for the SMEsector's sustainable development. The financial challenges of SMEs are also taken care of by SIDBI, and

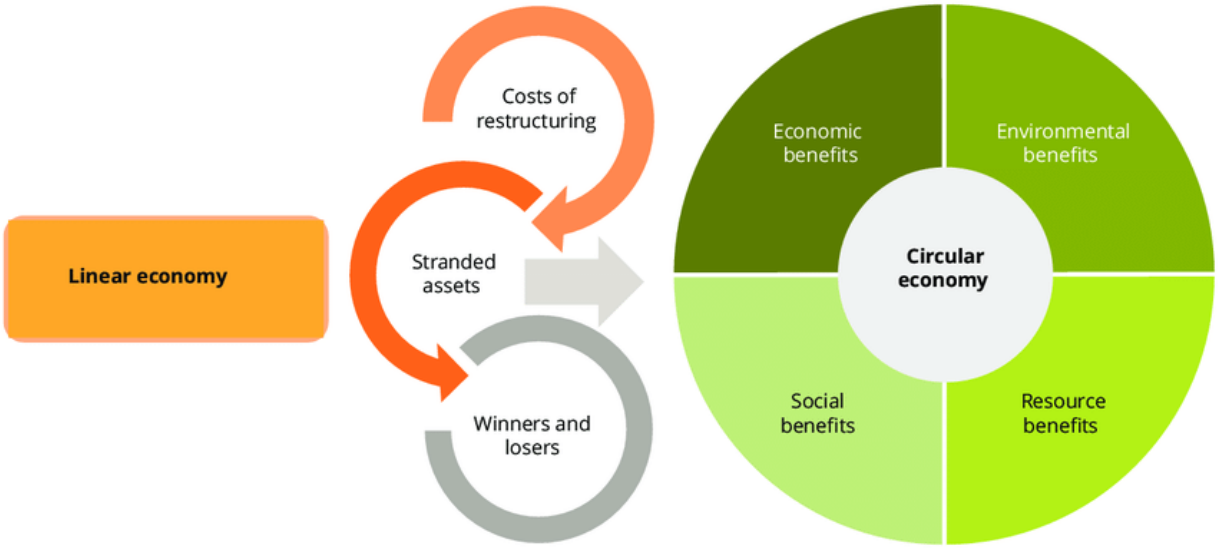
the monies that are supplied are concentrated on enhancing the general business environment for MSMEs. The information gap between banks and SMEs must be closed by the use of new technologies and the deployment of best accounting practices in order to comprehend the real-world issues that MSMEs experience and to facilitate the successful implementation of the funds supplied by SIDBI.

Second, in order to address the financing requirements of MSMEs and start-ups, the government must establish additional financial institutions in addition to SIDBI. Specialized banks, non-bank financial institutions (NBFIs), and other lending organizations might be some of these. Because these NBFIs provide microfinance programs that assist low-income households in supporting small businesses, they are relatively better at keeping an eye on small enterprises. Finally, by improving the financial infrastructure for information sharing regarding SMEs' creditworthiness, the government can assist in financing SMEs. SMEs' creditworthiness ratings can be created with assistance from credit rating bureaus and agencies.

In summary, the idea behind green financing is to offer small and midsize businesses ecologically friendly or green economic opportunities. The idea of "green finance" has two primary purposes: Two types of financing are available:

1. funding to promote environmentally friendly growth.
2. funding to reduce environmental expenses.

The promotion of green financing and green finance initiatives i.e. the activities that boost the green practices adoption in SMEs by boosting its availability, affordability and awareness among them. In contrast to a typical linear economy, SMEs that embrace green finance projects create a circular and green economy.



Factors used in the development of Green Finance

1. Conceptual comprehension of green finance and awareness of it
2. Establishing the fundamental framework and tactics for implementing green finance.
3. Strengthening the role of green financial institutions.
4. Promoting eco-friendly investors.
5. To control greenhouse gas emissions worldwide, the carbon market's development is supported.

The ability of SMEs to respond to the effects of climate change hinges on removing the obstacles, which include lack of policies and regulations, low level of ability to evaluate, lack of market access, lack of information access, and inadequate knowledge of climate risks.

REVIEW OF LITERATURE

A number of models have been put forth in the last ten years to solve important social and economic challenges, biodiversity loss, water shortages, and environmental concerns. The environmental events of 2008–2009 sparked a conversation about environmentalism (Barbier, 2010), which in turn sparked the idea of the "green economy." In order to address environmental issues, the majority of nations have now approved the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. The aforementioned objectives center on eradicating global poverty and promoting economic expansion in addition to tackling pressing problems with health, social protection, education, employment creation, pollution of the environment, and climate change. These objectives provide a connection between the ecological and economic systems. These objectives support the need to transition to more

sustainable ways of production and consumption, or a "greener economy." The development of strategies to lessen the harmful effects of climate change and environmental challenges requires a scientific grasp of the underlying ideas. The research shows that, when it comes to environmental conservation, industries like energy, water, land, flora and fauna, supply chains, etc., may all be thought of as innovation systems (Geels, 2004).

The adoption of environmentally friendly techniques and sustainable development have drawn more attention in academic study because of this concept.This paper aims to outline important policymakers' insights while discussing important societal concerns. Challenges including environmental concerns, sustainable technology change, and uncertain business scenarios are the focal points of the study. According to studies, there is a growing issue with green finance in the presence of completely efficient capital markets as a result of corporates' narrow-minded behaviour (Stein, 1989). Weak incentives are provided by private investors to pursue long-term technological development investments.

As per Lehman et al. (2018). Although incumbent technologies compete with the new ones, if the latter are better, they can be embraced for effective outcomes. The firms will benefit from a relative competitive advantage as the new and superior technology can be a close substitute for their environmentally conscious competitors. Since they frequently Favor technology based on fossil fuels, established institutions, laws, norms of conduct, etc., can also aid in the goal towards environmental conservation (Unruh, 2000). Even while adopting sustainable green practices has long-term benefits, the majority of the world's industrialized economies are still not reaping the full benefits of these programs (Sarkis, 2001).The goal of Tsoka et al.'s (2014) article was to examine potential ways that SMEs could adapt to the green economy.The study offered a conceptual framework that was derived from secondary data gathered from internet publications and government sources.

According to Epstein and Buhovac (2014), developing nations should prioritize creating sustainable green practices because they are greatly in need of and have a wide range of applications for them. It is argued in one of Mansouri et al. (2015)'s studies that, when it comes to themes like sustainable green practices, there aren't as many multi-objective research types as there are single objectives. Additionally, the study recommends that researchers focus on multi-objective studies rather than single aims and put in more effort (Hwang et al., 2012; Govindan et al., 2015). Georgeson, L. (2017) pointed out the areas that needed improvement in terms of measuring the green economy and proposed more comprehensive frameworks for determining the relationships between the economy, society, and environment. According to the report, in order to track the "transformational green economy," accurate green economy measurement must take into account factors other than GDP.

As stated by Ryszawska, B. (2019), SMEs require new CSR concepts known as CSR 2.0 and new business models. The study concentrated on the green economy on the one hand, and the different players in the expected economic transition on the other. The final section of the article covered the shared goals and ideals of the radical CSR and green economy. The document proposed post-COP 21 frameworks and the evolving Sustainable Development Goals. According to Dalia D'Amato et al. (2020), the circular economy concept is becoming more and more popular as compared to linear economy for companies as a means of achieving the Sustainable Development Goals set forth by the United Nations in 2030. Applying the circular economy's tenets to resource management could result in more effective resource management. According to the report, businesses of all sizes have embraced the circular economy because it offers them opportunities for cost savings, innovation, and competitive advantage. The study gave stakeholders and SMEs new perspectives on how to manage the sustainability and expansion of SMEs by facilitating the shift to a circular economy. The study by Söderholm, P. (2020) concentrated on five primary challenges: managing environmental risks, attaining radical changes rather than merely gradual, sustainable changes, addressing green capitalism as the next challenge, creating suitable policy combinations, and addressing distributional issues as the final challenge.Thereport suggests that future research should concentrate on identifying issues adopting new regulations in diverse organizational contexts. It concludes that sustainable technological development necessitates re-evaluating the industry and SMEs role.

According to Yıldırım, S. et al. (2020), the goal of sustainable development is to strike a balance between the environmental, social, and economic spheres in order to maintain harmony between humankind and the natural world. The ideal strategy for sustainable development is the green economy approach because the current economic systems and the current scenario make it impossible to achieve sustainable development over the long run. The study looks into the connection between sustainable development and the green economy. The report offers a perspective on how to achieve sustainable development objectives using the green economy. The study's discussion of the green economy's role in accomplishing sustainable development objectives comes to a close. A different study conducted in 2020 by Denona Bogovic, N., and Grdic, Z. S. evaluated the potential impacts of economic transition using the European Green Deal strategy framework. The findings created investment scenarios for the switch to a greener economy. The findings were additionally reinforced by instances pertaining to particular industries and commercial pursuits. The study came to the conclusion that promoting sustainable development can be aided by moving toward a green economy. According to Mura, Longo, and Zanni (2020), SMEs' adoption of Circular Economy practices bolsters the idea that a systematic approach to a company's value generation is implied by the concept. This suggests that businesses, especially SMEs,

may create value through the Circular Economy. The study by Ngondjeb, D. Y. (2020) confirms that there are possibilities and problems in relation to social inclusion, equity, entrepreneurship, innovation, and the demand for green goods and services. Even with the current state of the climate and environmental issues, SMEs still need to take advantage of the potential through sustainable transformation. According to Cerminara I (2020), companies produce trash at every stage of the manufacturing process because growth is essential to the economy. However, there is growing focus and awareness towards waste management, which will help SMEs produce zero waste.To facilitate an efficient and scalable innovation transfer with respect to the circular economy, this study outlines their realm of important innovations. Sharma, N. K. (2021) noted a few barriers to the adoption of the Green Economy that are related to SMEs' lack of management, awareness, and financial difficulties. The obstacles that were found have to do with both inexperience and well-trained personnel. One of the main concerns with establishing the circular economy is consumer acceptability, which is also noted. The study's recommendation for important preconditions for implementing the circular economy came at the end. Strong "management will," creativity, technology upgrades, staff motivation, and training are the recommended prerequisites. After examining the literature, we can say that the main issues that needed to be addressed were those related to technology, innovation, accessibility, availability, and funding affordability.

RESEARCH METHODOLOGY

Research Objectives –
To investigate the challenges in implementation of Green Finance Initiatives (GFIs) in SMEs

RESEARCH METHODS

A self-designed survey to gather information. A five-point Likert scale was employed, ranging from "strongly disagree" to "strongly agree." On a 5-point Likert scale, which is divided into Strongly Disagree, Disagree, Neutral, and Agree. It is a cost-effective method of gathering information from a sizable population (Sekaran, 2003).

Data Collection Method-
The sample is drawn from small and medium-sized enterprises (SMEs) in the state of Haryana, representing industries like textiles, electronics, electrical, and food & beverage. Senior department professionals, mostly from the manufacturing SMEs, made up the responders.These individuals were chosen on the basis of their expertise and current understanding of environmental concerns and efforts related to their own organizations.

Constructs Measure-
Three sub-constructs relating to cost, skilled labour, and government policies made up the construct difficulties in the questionnaire. The three variables that make up each sub-construct explain the difficulties, such as whether or not government policies and environmental standards are supportive. Does the government undertake enough green finance initiatives? Is it expensive to implement these initiatives? Are green funds easily accessible and reasonably priced?

DATA ANALYSIS

The lack of support from the regulatory environment and the absence of clear government policies regarding the green finance initiative for SMEs have resulted in the determination that the primary challenges faced by SMEs are the intricate environmental regulations, the financial burden imposed on small and medium-sized businesses due to additional fees for licenses and certifications, and the environmental burden itself. Furthermore, skilled staff is needed for the green finance program's adoption, which raises costs for small and medium-sized enterprises. In order to advance the workforce's skill set, training is also required, and this incurs additional costs.

According to the study's findings, the situation is difficult because the mean and standard deviation were, on average, 4 on a scale of 1 to 5.

The regulatory regime is unsupportive (Mean =3.96, Standard Deviation=1.15), there are no clear government policies towards a green finance for small scale enterprises (Mean= 4.05, Standard Deviation =1.08), the costs of implementing the green finance initiative is so high (Mean=4.06, Standard Deviation =1.09), and thereare extra costs for due diligence and certification (Mean=3.51, Standard Deviation =1.35)Green finance initiative adoption required skilled labourers (Mean = 3.63, Standard Deviation = 1.33), skilled labour cost more to the small scale enterprises (Mean = 3.49, Standard Deviation = 1.38), provide Training and skills to employees generates additional cost (Mean = 3.53, Standard Deviation = 1.39), and providing skills to employees generates additional cost (Mean = 3.53, Standard Deviation = 1.39). Environmental burden imposed financial burden on small scaleenterprises (Mean = 3.53,Standard Deviation = 1.39

Findings of the study-

The results of the study showed that the regulatory framework is ineffective and that the environmental criteria are sufficiently complicated. There aren't many explicit government restrictions regarding green finance for small enterprises. Adopting the green financing program comes with a hefty price tag, and there are further expenses for certification and due diligence. This has a negative financial impact on SMEs because of the environmental cost. Qualified labour was needed for the green finance project's adoption, but skilled labour was more expensive for these SMEs because it requires more money for training and skill development.The growth of any business depends on regulatory regulations, appropriate assistance, and encouragement to realize its full potential.

Therefore, policymakers ought to offer theincentive support tomake the pathto achieve green finance initiatives by SMEs for their long-term sustainability and for the overall benefit of economy.

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