

Influencing Financial Flows for fair and inclusive economies

Reforming financial markets offers the opportunity to address financial stability and redirect capital flows towards building greener and more resilient economies. We see that our financial markets are currently guided by short-term goals and an overreliance on financial derivatives.

Governments, at the state and national level, need to align investments that not only see strong returns, but also create jobs, reduce carbon emissions and improve energy security; thus, demonstrating improved resilience to economic volatility.

Communities require resilient sources of food, water, energy, employment and finances to invest in their businesses. The growth of Small and Medium Enterprises (SMEs) is a root to grow reliance and prosperity from the ground up. These innovations need new sources of investment.

Businesses need to move towards long term gains. The culture of short-termism in the finance markets is indicative of a lack of investor confidence. The benefits of more confidence in the general trends of economic development, as defined by government policy, will clarify the risks in investment, and make it easier for companies to find investment for their sustainability innovations.

How is Madhya Pradesh investing in Green Economy?

Public expenditure, public procurement and tax/fiscal incentives to certain sectors determine the direction of growth of the economy. Some insights from the trends in Madhya Pradesh are:

- 41% of the Annual Budget 2016-17 is planned to be spent on social sectors, including education, energy, rural development, urban development, environment and public works. This is a 6% increase from the previous year. (PRS, 2017)
- GST – the new tax regime: Petroleum products are not included under GST in Madhya Pradesh. The reason stated by the finance minister is that 35% of the revenue of the state is derived from the tax on the petroleum products. Madhya Pradesh will continue to have high tax rates for petroleum products, without including it in the GST regime. (Business world, August 2017) The proposed GST regime has high tax slabs for crop protection products - seeds (exempt), fertilisers (12%), tractors (12%) – which remain taxable at 18%. With 70% of the population working in the agriculture sector, facing high risks, low incomes and huge social and environmental impact, the Madhya Pradesh Government needs to ensure that GST hears their plight as well.

How responsible are financial institutions in ensuring green and fair investment?

The Reserve Bank of India (RBI) issued a circular in 2007, emphasising the important role that banks play in establishing institutional mechanisms that contain sustainability and act responsibly. 'Equator Principles', a set of voluntary environmental guidelines created to manage environmental degradation caused by large scale developmental projects in developing countries, is an international standard to ensure responsible investments. ([Humane Society International, 2016](#)) Some insights from Madhya Pradesh are as follows:

- Recently, projects were put on hold due to non-compliance of environmental and social concerns, as in the case of various international banks like the Deutsche Bank, Calyon & ABN AMRO, all of which are signatories to the Equator Principles, refusing to finance the Omkareshwar Dam on the Narmada River in Madhya Pradesh.

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- World Bank and Asian Development Bank have invested considerable amounts with the strategy agenda of 'environmentally sustainable growth' and 'inclusive economic growth'. Some of these projects, such as 'Madhya Pradesh Urban Services Improvement' and 'Madhya Pradesh Rural Connectivity Project', have undergone environmental and social impact assessments. However, accurate data on the impact of these projects is not available.

Figure 1: PERFORMANCE OF BANKS VIS-À-VIS STIPULATED NORMS OF RBI



Source: Agenda 162nd State Level Bankers Committee, MP

- Under the RBI norms, 64.49% of the total advances were for the priority sector lending (i.e., Agriculture, MSME, Housing and others) in Madhya Pradesh.

How inclusive are the financial markets, investing in Medium, Small and Micro Enterprises (MSMEs)?

MSMEs are crucial for local economic development and job creation in the times of jobless economic growth in the country. The state of Madhya Pradesh has identified MSMEs as its key focus, whereby it is directly investing in such units, as well as providing financial assistance under the Industrial Policy 2014.

- The venture fund has been established under the Madhya Pradesh MSME Fund Trust, with an aim to create an SME Innovation Fund. The SME Innovation Fund is the first fund raised under this trust. **It has a total corpus of USD 15.4 million (INR 100 Cr) with a green shoe option of USD 7.74 million (INR 50 Cr).** The funding is still due and will gradually be raised from the state government as well as multilateral agencies such as banks, financial institutions, corporate, etc. (INC 42, 2017)
- Under IPP 2014, MSMEs will be exempted from entry tax for 5 years. Further, an MSME unit will get 15% of capital subsidy subject to ceiling of INR 15 lakhs. Also, interest subsidy of 5% with ceiling of 3-5 lakhs for 7 years is also provided to MSMEs. (Indian Iris, 2015)
- With a view to balance regional development, small, medium and large scale units set up in "No Industry Blocks" of all the districts in the state will get the same commercial tax concession of exemption or deferment, available in "C" category districts. (DCMSME, 2017)

Some of the key trends in the financial investments in the state have been highlighted on account of their greening, inclusiveness and responsible investments. The purpose of this round table is to seek answers to the following questions:

- Is the state government of Madhya Pradesh adequately focusing on driving finance towards a green, responsible and inclusive development?
- What are the major hindrances and roadblocks that are preventing financial investments from moving towards a Green Economy?
- Are there innovations in tax, incentives, policies and regulations that can support Madhya Pradesh in moving finance towards a Green Economy?

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