



NABARD'S CLIMATE STRATEGY AND GREEN FINANCE - GS III MAINS

Q. How does the recent electric vehicle manufacturing policy helps in making India as a manufacturing destination for e-vehicles (EVs) in the world? (15 marks, 250 words)

News: *NABARD unveils Climate Strategy 2030 to mobilise green financing*

What's in the news?

- Recently, the National Bank for Agriculture and Rural Development (NABARD) unveiled its Climate Strategy 2030 document on the occasion of World Earth Day.

NABARD's Climate Strategy 2030 Document:

- It was released during the 78th Business Plan Meet (BPM) held at Thiruvananthapuram.

Aim:

- To address India's need for Green Finance.

Objective:

- To reinforce NABARD's commitment to environmental stewardship.
- To be a pivotal player in India's transition towards a **resilient & sustainable economy**.

Key Pillars:

It is structured around **four key pillars** to address this demand such as

- Accelerating Green Lending across sectors.
- Playing a broader Market-Making Role.
- Internal Green Transformation of NABARD.
- Strategic Resource Mobilization.

Green Finance:

- As per the United Nations Environment Programme, Green Finance is to increase the level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities.

Activities under Green Finance:

- Buying eco-friendly goods and services
- The development of green infrastructure
- Green bonds
- Green mortgages



- Green funds
- Green loans
- Sustainable credit cards, etc.

Uniqueness:

- It includes climate finance, but is not limited to it.
- It also refers to a wider range of other environmental objectives, such as industrial pollution control, water sanitation or biodiversity protection.

Significance of Green Finance:

1. Facilitating Eco-Friendly Technologies:

- Green finance facilitates the widespread deployment of green infrastructure and other environmentally friendly initiatives within local markets.

2. Competitive Edge:

- Development of low-carbon technologies through green finance provides businesses with a competitive advantage.

3. Enhanced Business Value:

- Green finance adds value to a company's portfolio, attracting stakeholders, investors, and current or potential customers.

4. Economic Boost:

- Businesses can encourage further green initiatives, thereby benefiting their financial pursuits while promoting sustainability.

5. Promotes the Importance of Sustainability:

- The adoption of green finance by one company can inspire others to follow suit, influencing their local markets and promoting the development of renewable energy.

Challenges Related to Green Finance:

1. Lack of Standardization:

- Without a universal standard defining green finance, it's challenging for both investors and consumers to discern genuinely committed companies from those engaging in greenwashing.

2. Risk Assessment:

- The lack of standardization and available data complicates the pricing of green finance, posing challenges for accurate risk assessment.

3. Data Availability:

- Reliable data on green finance is scarce, making it difficult to quantify which companies are truly succeeding in implementing green finance initiatives.



4. Transition Risks:

- Transitioning to a low-carbon economy necessitates changes in business practices across various industries, potentially impacting investor portfolios.
- Additionally, evolving customer preferences and technological advancements may not align with the needs of green finance, further affecting investor portfolios.

5. Regulatory Concerns:

- Since green finance is heavily influenced by government policies, investors may worry that future environmental regulations could diminish the profitability of their investments.

6. Uncertain Financial Performance:

- Investor hesitancy may arise due to uncertainties between traditional and green finance, particularly concerning short-term returns despite proven long-term profitability.

7. Lack of Standardisation and Greenwashing:

- The absence of globally accepted standards for green investment leads to ambiguity and inconsistency in evaluating environmental impact and financial performance, increasing the risk of greenwashing.

Way Forward:

1. AI-powered Risk Assessment:

- Developing AI algorithms to accurately assess environmental and financial risks associated with green projects, encouraging traditional financial institutions to engage in green financing.

2. Satellite Data-driven Investment Decisions:

- Utilizing satellite imagery and data analytics to evaluate the environmental impact of potential investments, providing investors with data-driven insights.

3. Green Infrastructure Bonds:

- Creating green infrastructure bonds with partial government guarantees to mitigate risk for private investors and promote participation in sustainable infrastructure projects.

4. Micro-grants for Grassroots Initiatives:

- Establishing micro-grant programs to support local communities in implementing small-scale green projects like rainwater harvesting and solar-powered irrigation.

5. Green Impact Scores:

- Implementing a system where financial products earn "green impact scores" based on their environmental footprint, empowering consumers to make informed choices.

Go back to basics:



PL RAJ IAS & IPS ACADEMY

MAKING YOU SERVE THE NATION

National Bank for Agriculture and Rural Development (NABARD):

- It has been constituted for “matters concerning policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas in India“.

Headquarters: Mumbai

Backdrop:

- Based on the recommendations of the **B.Sivaraman Committee**, it came into existence to implement the National Bank for Agriculture and Rural Development Act 1981.
- NABARD replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of the Reserve Bank of India, and the Agricultural Refinance and Development Corporation (ARDC).

Collaborators:

- World Bank-affiliated organizations and global developmental agencies working in the field of agriculture and rural development are collaborators of NABARD.

