



National Green Financing Institution

For Prelims: [NaBFID](#), [NABARD](#), [IREDA](#), [InvITs](#), [Panchamrit Strategy](#), [Green Bonds](#), [Clean Environment Cess](#), [Priority Sector Lending \(PSL\)](#), [Green Masala Bonds](#), [COP29 UNFCCC](#), [Credit Ratings](#).

For Mains: Need of a dedicated green financing institution in India. Role of finance in climate change mitigation.

[Source: TH](#)

Why in News?

The Government is working to set up a **National Green Financing Institution** to aggregate **green finance** from different sources and **lower the cost of capital** to support its **net-zero target by 2070**.

- NITI Aayog is evaluating models like [NaBFID/NABARD](#), [IREDA](#), [Green InvITs](#), and **global Green Banks** for a National Green Financing Institution.

What is the Need for Green Finance in India?

- **Escalating Climate Change Risks:** Climate change could lead to an estimated **10% loss** in total economic value and up to **18% of global GDP** wiped out by **2050**.
 - This economic threat is particularly **severe for India**, which aims to grow its economy to **USD 10 trillion by 2030**.
- **India's Net-Zero Ambitions:** At [COP26 UNFCCC](#), India pledged to achieve **net-zero emissions by 2070** under the [Panchamrit strategy](#) that requires over **USD 10 trillion** in investments.

//

Achieving Climate Goals



Non-Fossil Energy Capacity

Achieving 500 GW of non-fossil energy capacity by 2030.



Renewable Energy Source

Sourcing 50% of energy requirements from renewable sources by 2030.



Carbon Emission Reduction

Reducing projected carbon emissions by 1 billion tonnes by 2030.



Economic Carbon Intensity

Lowering carbon intensity of the economy by 45% by 2030.



Net-Zero Goal

Reaching net-zero emissions by 2070.

- **Threat to Financial Institutions:** The **financial services** industry faces **72%** of the **potential financial impact** of climate change, which banks can mitigate by funding **green infrastructure, renewable energy, energy-efficient buildings**, and industrial decarbonization.
- **Investment Deficit:** India needs **USD 1.4 trillion** in aggregate investments, or **USD 28 billion annually**, to reach its **2070 net-zero goal**.
 - As of **February 2023**, India's **green bond** issuances totaled USD 21 billion only, with the private sector contributing 84%.

What are the Current Green Energy Financing Initiatives in India?

- **NCEF: National Clean Energy and Environment Fund (NCEF)** funds clean energy ventures and research through **Clean Environment Cess on coal**.
 - **IREDA** uses part of the NCEF fund to **lend to banks at the rate of 2%**, enabling concessional loans for renewable energy projects.
 - IREDA also sources funds from global banks e.g., the World Bank gave **USD 100**

million for solar parks.

- **Recognition of PSL:** In April 2015, RBI classified renewable energy as a [priority sector lending \(PSL\)](#), requiring banks to allocate up to **40% of net credit**.
 - Loans up to **Rs 15 crore per borrower** is given to cover **solar, biomass, wind, micro-hydel**, and non-conventional energy utilities.
- **Green Banks:** Green banks accelerate clean energy financing by funding **environmentally sustainable projects**.
 - In India, **IREDA, SBI** and other banks offer **concessional loans** for renewable energy projects.
- **Green Bonds:** They are market-based financial instruments for raising **capital for environmentally beneficial projects**. E.g., [Green Masala Bonds](#) by IREDA.
- **Crowdfunding:** It is a **decentralized** funding model using **small private investments** for renewable energy. E.g., Crowdfunding platform **Bettervest**'s support for **MeraGao Power and Boond Engineering** in rural India.

CLIMATE FINANCE

Climate finance refers to local, national or transnational financing—drawn from public/ private/alternative sources of financing—to support mitigation and adaptation actions against climate change.

PRINCIPLES OF CLIMATE FINANCE

- ⊖ Polluter Pays
- ⊖ Common but Differentiated Responsibility and Respective Capability (CBDR–RC)

Multilateral Climate Funds Coordinated by UNFCCC

- ⊖ **Global Environment Facility (GEF):** Operating entity of financial mechanism (1994)
- ⊖ **Kyoto Protocol (2001):**
 - ▶ **Adaptation Fund (AF):** Gives developing countries full ownership of adaptation projects
 - ▶ **Clean Development Mechanism (CDM):** To carry out emission-reduction projects in developing nations
- ⊖ **Green Climate Fund (GCF):** estd. - 2010 (COP 16)
 - ▶ Funds under it - **Least Developed Countries Fund (LDCF)** and **Special Climate Change Fund (SCCF)**
- ⊖ **Long-Term Climate Finance:**
 - ▶ **Cancun Agreements (2010):** Mobilize and provide scaled-up funds in short and long term
 - ▶ **Paris Agreement (2015):** Developed nations agreed to establish new collective goal of at least \$100 billion/year by 2025
- ⊖ **Loss and Damage Fund (2023) (COP27 & COP28):** Financial assistance to nations most vulnerable and impacted by effects of climate change

Climate Investment Funds (CIFs) under World Bank

- ⊖ Clean Technology Fund
- ⊖ Strategic Climate Fund

INDIA'S INITIATIVES REGARDING CLIMATE FINANCE

Fund	Objective
<ul style="list-style-type: none"> ■ National Adaptation Fund for Climate Change (NAFCC) (2015) ■ National Clean Energy Fund (2010-11) ■ National Adaptation Fund (2014) ■ Intended Nationally Determined Contributions (INDCs) (2015) ■ Climate Change Finance Unit (2011) 	<ul style="list-style-type: none"> ■ For vulnerable Indian states ■ Advancing clean energy (started with initial carbon tax on industrial coal use) ■ Bridging gap between required and available funds ■ Nationally binding targets adopted under UNFCCC ■ Leads on global climate finance issues

Challenges to Climate Finance

- ⊖ Gap between national needs and climate finance under NDCs
- ⊖ Least Developed Countries receive much less approved funding in per-capita terms from the multilateral climate funds
- ⊖ Slow rate of approvals
- ⊖ Failure in securing viability-gap funding



Drishti IAS

What are Challenges in Green Energy Financing in India?.

- **Limited International Finance:** At [COP29 UNFCCC](#), developed nations pledged to mobilize at least **USD 300 billion annually** by 2035 to support **climate mitigation** that is **insufficient** compared to the required financing.
 - Several experts highlight that mobilising **USD 1 trillion per year by 2030** is required to help developing countries cope with **climate change**.
- **High Borrowing Costs:** High interest rates, long gestation period and a lack of fiscal incentives for lenders make **green finance costly**, often rendering projects **financially unviable**.
- **Diversion of Funds:** NCEEF was created for clean energy initiatives, but much of its funds have been **diverted** to non-renewable projects like **GST compensation** and **Namami Gange**.
- **Institutional Barriers for Green Banks:** India has **yet to institutionalize** green banks due to a lack of clear RBI guidelines and **legal recognition**, impacting their credibility and fund mobilization.
- **Underdeveloped Green Bond Market:** Green bonds need **high credit ratings**, which many renewable projects lack due to poor financial health. Investor **skepticism** persists over fund utilization.

Way Forward

- **Enhancing Climate Finance:** Leverage platforms like the **Global Green Bond Market** and multilateral institutions (World Bank, AIIB) to mobilize concessional funding.
 - Provide **sovereign guarantees** and **interest rate subsidies** for green infrastructure projects while introducing a **Tax-Free Green Bond Scheme** to attract investors.
- **Green Banking Ecosystem:** Institutionalize **Green Banks** under RBI with clear regulations and a legal framework, while promoting **public-private co-financing** to attract global green capital.
- **Alternative Financing Mechanisms:** Expand **Green Infrastructure Investment Trusts (Green InvITs)** to boost private participation and develop carbon credit markets linked to green financing instruments.
- **Microfinancing:** Support **women-led green businesses** and provide **affordable climate risk insurance** for small farmers to **support adaptation** rather than focusing only on mitigation.

Drishti Mains Question:

Discuss the role of green finance in achieving India's net-zero target by 2070. What are the major challenges, and how can they be addressed?

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims:

Q. Which of the following statements regarding 'Green Climate Fund' is/are correct? (2015)

1. It is intended to assist developing countries in adaptation and mitigation practices to counter climate change.
2. It is founded under the aegis of UNEP, OECD, Asian Development Bank and World Bank.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (a)

Mains

Q. Describe the major outcomes of the 26th session of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC). What are the commitments made by India in this conference? (2021)

Q. Explain the purpose of the Green Grid Initiative launched at the World Leaders Summit of the COP26 UN Climate Change Conference in Glasgow in November 2021. When was this idea first floated in the International Solar Alliance (ISA)? (2021)

PDF Reference URL: <https://www.drishtias.com/printpdf/national-green-financing-institution>

