



Green Investment Accelerator and Relevance of Green Microfinance: A Study of the Indian Landscape

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Abstract: Change is the law of nature; therefore, it cannot be denied, but rather, one can adapt oneself in accordance with it. Similarly, when an environmental crisis ceases to be merely a problem of a specific region or country and instead becomes a global issue, initiatives undertaken by any single region or nation for its resolution prove insufficient. Consequently, it becomes imperative for all nations to adopt, to the fullest extent possible, methods for taking initiatives at their respective levels. Among the various means available for resolving environmental crises, the field of microfinance, which is prevalent across almost the entire world, stands out as a significant avenue. Therefore, the microfinance sector should chart its future course by integrating itself with the concept of Green Microfinance. India has ventured into the realm of Green Microfinance only in the recent past; consequently, very limited research has been conducted in this field within the Indian context. Accordingly, this research study is dedicated to assessing the suitability of Green Microfinance within the Indian context; concurrently, it examines the roles played by, and the initiatives undertaken by, the Reserve Bank of India (RBI), Sa-Dhan (an association of community finance institutions), and NABARD. The findings indicate that Green Microfinance demonstrates positive utility within the Indian context and that the Reserve Bank of India, Sa-Dhan, and NABARD are indeed playing pivotal roles in this regard.

Keywords: - Green Microfinance, Microfinance, Sustainable Development Goals (SDGs), Indian Economy.

Introduction

Green Microfinance is a financial service that endeavours to improve environmental conditions by serving as an incentive for the poor. It provides microfinance to the poor, thereby encouraging them to adopt more sustainable and eco-friendly practices. Green Microfinance addresses areas of environmental degradation, including water pollution, river encroachment, improper disposal of medical and household waste, deforestation, loss of biodiversity, and similar issues. Fundamentally, Green Microfinance represents a convergence of two distinct concepts: “Green” initiatives and “Microfinance.” Both of these concepts have emerged from contexts involving contentious issues. Environmental pollution constitutes a formidable challenge at both national and international levels; however, in contemporary times, public awareness regarding the environment has significantly increased. Consequently, consumers are increasingly gravitating toward products and services that are both economically viable and environmentally friendly. The concept of Green Microfinance is poised to play a pivotal role in maintaining the equilibrium required for sustainable development.

The evolution of Green Microfinance emerged as a result of the three-decade-long journey of the microfinance sector, a development that finance scholars have termed “Microfinance Plus.” In the Indian context, the history of Green Microfinance is relatively nascent. While the primary objective of microfinance was originally focused on the economic and social welfare of the poor, its scope has now expanded to encompass environmental welfare alongside socio-economic well-being. The findings of various research studies serve as indicators of this shifting paradigm. Numerous research studies in the Indian context are based on analyses of the interrelationships between Green Microfinance and various other components—such as Green Microfinance and Sustainable Development



Goals, Green Microfinance and the Indian Economy, Green Microfinance and Women's Empowerment, and Green Microfinance and the impact of COVID-19.

Green Microfinance is, undoubtedly, a boon both for combating global environmental pollution and for ensuring the future viability of microfinance institutions. This research study is dedicated to assessing and establishing the necessity of Green Microfinance within the specific context of India. This work describes the integrated relationship of Green Microfinance with various components and also outlines the roles and initiatives undertaken by Indian financial regulatory bodies such as the Reserve Bank of India, Sa-Dhan, and NABARD.

Literature Review

Dr. Manpreet Kaur (2023), in her research study, describes the assimilation of the concept of Green Finance by Indian companies. She observed that the Government of India, the public sector, and the private sector have all already begun facilitating Green Finance products and services. She suggested that the Government of India should introduce greater transparency regarding Green Finance policies, strategies, and regulations in order to attract both national and international investors.

Nazim Uddin et al. (2021), in their research study, conducted a survey examining the relationship between microfinance and Sustainable Development Goals (SDGs) in the context of Green Microfinance. They found a positive correlation between Green Microfinance policies, Green Microfinance reporting, and the profitability of Microfinance Institutions (MFIs). Green Microfinance is identified as a crucial aspect for the achievement of Sustainable Development Goals. This research study presents a blueprint for Microfinance Institutions regarding the development of Green Microfinance initiatives.

Dr. Parmeshwar Gupta et al. (2022) conducted their research based on primary data, focusing on the impact of Green Microfinance on women's empowerment. They observed a discernible increase in awareness among members of Self-Help Groups (SHGs) regarding the use of 'green products.' These members have now begun utilizing products multiple times, engaging in recycling to create new items, and repurposing product residues for other applications. The growing savings of Self-Help Groups, coupled with their heightened awareness regarding the use of green products, signal emerging opportunities for the development of their green enterprises.

Oscar Kujur and Dr. Sudesh Kumar (2023), in their research study, describe the impact of COVID-19 across various sectors and outline strategies for post-pandemic recovery. They found that Green Finance serves as an effective instrument for sustainable development, capable of rapidly facilitating recovery in the post-COVID era. Green Finance can foster the development of a system capable of identifying social and environmental issues, thereby paving the way for sustainable and inclusive development.

Arjita, Jagrati, and Professor Akhil Mishra (2023), in their research study, identified five key dimensions for assessing the significance of Green Microfinance and evaluating the performance of Microfinance Institutions. These five dimensions are Environmental Policy, Ecological Outline, Environmental Risk Measurement, Green Micro-credit, and Environmental Non-financial Services. Various indicators have been outlined to facilitate the measurement of these five dimensions.

Objectives

- To study the concept of Green Microfinance.
- To understand the relevant role of Green Microfinance in achieving Sustainable Development Goals and in the growth of the Indian economy.
- To examine the roles played and initiatives undertaken by the Reserve Bank of India (RBI), NABARD, and Sa-Dhan in the development of Green Microfinance.

Research Methodology



This research study is explanatory in nature and utilises secondary data. This data has been composed from available articles, various websites, government reports, and other secondary sources.

Analysis

Relationship of Green Microfinance with Other Components

Green Microfinance and Sustainable Development Goals

Following the conclusion of the Millennium Development Goals (MDGs) era, the objective of achieving the Sustainable Development Goals (SDGs) was established by the United Nations Development Committee in New York in 2015. This framework comprises 17 goals and 169 targets, with a stipulated deadline of 2030 for their realization. India, too, has geared up its efforts to achieve these goals by 2030. Currently, private banks have implemented numerous investment schemes aimed at achieving the Sustainable Development Goals (SDGs); however, if banks remain the sole actors driving the future progress of these goals, they may face the challenge of financial strain. Therefore, it is imperative to provide microfinance institutions (MFIs) with the opportunity to step forward in this direction as well. Microfinance is, in itself, a “green” initiative, as it extends credit to individuals who possess the capability to sustain their enterprises over the long term. According to the report for the financial year 2021–22, Indian microfinance institutions served a total of 60 million clients, constituting a significant segment of the Indian population, most of whom reside in rural areas. Given that MFIs possess the most extensive reach among the poor and low-income populations, a demographic that tends to exhibit relatively low sensitivity toward environmental awareness, these institutions must initiate efforts, through both financial and non-financial schemes, to deliver economically viable and eco-friendly products and services to their clientele.

Green Microfinance and the Indian Economy

According to the Global Multidimensional Poverty Index 2023, out of 6.1 billion people across 110 countries globally, 1.1 billion remain multidimensionally poor; within this context, more than 23 million people in India continue to live in poverty today. This statistic indicates that, even today, the government, financial institutions, non-financial entities, and other stakeholders in India have largely failed to fully achieve their objectives regarding financial inclusion. According to the Oxfam report, “Survival of the Richest: The India Story,” The top 1% of India's population owns 40% of the country's overall wealth, while the poor in India disproportionately bear the burden of higher taxes compared to the rich. In India, for every 1 rupee earned by a male worker, female workers receive only 63 paise. These statistics from Oxfam vividly illustrate the extent of relative poverty in India.

Vaidyanathan, Managing Director and CEO of IDFC FIRST Bank Ltd., stated at the Sa-Dhan 2022 conference that India's microfinance market stands at ₹2.97 lakh crore, serving 60 million unique customers, an achievement India has attained over a span of 20 years, driven primarily by short-term credit. The microfinance sector has demonstrated a remarkable ability to “bounce back” following almost every period of crisis. This resilience demonstrates that the underlying economic fundamentals of micro-borrowers' businesses are sound, and their loan repayment rates remain relatively high. Furthermore, average credit losses have remained low, even in the wake of multiple crises.

These are auspicious signs for any economy; when such financial institutions demonstrate a trajectory of growth, the government and other stakeholders should step forward to actively support their development. Therefore, Microfinance Institutions (MFIs) must ensure that they chart their future course by embracing the principles of Green Microfinance.

During the COVID-19 pandemic, when the vast majority of economic sectors were in a slump, agriculture and telecommunications played a predominantly positive role. While the overall economic growth for 2020-21 registered a negative trajectory (-7.2%), the agricultural sector expanded by 3.4% during the same fiscal year. The



telecommunications sector also capitalized on growth opportunities, as this period was characterized by the prevalence of online schooling, remote work, and the acquisition of new skills. Amidst the lockdowns, telecommunications companies served as a lifeline in maintaining global connectivity. If the Indian economy is to stage a recovery in the post-COVID era, it must prioritize the promotion of the agricultural and telecommunications sectors; furthermore, it is imperative to ensure that no segment—whether existing or prospective of the microfinance client base within society remains excluded from these initiatives. Consequently, Microfinance Institutions (MFIs) can play a pivotal role in this context by providing the poor and marginalized with access to organic fertilizers, modern eco-friendly equipment, awareness regarding information and technology, and essential micro-financial services.

Role and Initiatives of Financial Institutions towards Green Microfinance

The Role of Sa-Dhan (Association of Community Development Finance Institutions)

Sa-Dhan is a Self-Regulatory Organization (SRO) appointed by the Reserve Bank of India for microfinance institutions; it serves as an association of microfinance and effective finance institutions. It is India's first and largest consortium of community development finance institutions, established two decades ago. Sa-Dhan comprises approximately 220 members operating across more than 600 districts in 33 states and Union Territories; these members include for-profit and non-profit microfinance institutions, Self-Help Group (SHG) promoting institutions, rating agencies, capacity-building institutions, and others.

Vision

“To foster an economically and socially inclusive society.”

Mission

“To promote microfinance institutions with inclusive impact, enabling low-income households—particularly women—to secure sustainable livelihoods, enhance their social and financial well-being, improve their quality of life, and contribute to the achievement of Sustainable Development Goals (SDGs).”

Initiatives Undertaken by Sa-Dhan

1. HSBC Project on Enabling Digital Solutions to Overcome Digital Barriers

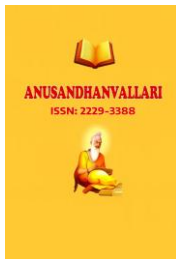
Sa-Dhan launched a project, with the support of HSBC, aimed at improving the digital ecosystem to enhance financial access for the unbanked population. To achieve this objective, Sa-Dhan organized four workshops in collaboration with four partner institutions: Initiative Financial Services Pvt. Ltd., Hindustan Microfinance Pvt. Ltd., Midland Microfinance Ltd., and Gramin Shakti Financial Services Pvt. Ltd. The primary goal of this initiative was to raise awareness regarding the utilization of digital technology during financial transactions.

2. Sa-Dhan Intervention in Promoting Water and Sanitation

Sa-Dhan entered into a partnership with Water.org. Water.org is an international non-profit organization dedicated to providing credit facilities for water and sanitation needs to the poor and underprivileged. Sa-Dhan launched this program to facilitate the expansion of financing for water, sanitation, and hygiene (WASH) initiatives through microfinance institutions across India.

3- Water and Sanitation with FINISH

Sa-Dhan, in collaboration with the FINISH Society, launched a program aimed at providing a safe and healthy life for the poor populations of Bihar, Maharashtra, and Rajasthan. Sa-Dhan implements this program, while the FINISH Society provides technical assistance to the Microfinance Institutions.



Role of the Reserve Bank of India

The Reserve Bank of India is a regulatory body. It regulates and manages all types of banks within the country. Prior to 2010, there was no official regulator for Microfinance Institutions. With the enactment of the 2011 legislation, the “Non-Banking Financial Company–Micro Finance Institution” (NBFC-MFI) emerged as a distinct category within the microfinance sector, and certain existing Non-Banking Financial Companies were also reclassified under this category. Approximately a decade later, the Reserve Bank of India issued its second set of guidelines for NBFC-MFIs, which became effective on April 1, 2022.

The key highlights of this circular were as follows: -

1. The Reserve Bank of India (RBI) increased the limit for collateral-free loans to ₹3,00,000 per household (previously capped at ₹2,00,000 per urban household and ₹1,20,000 per rural household).
2. The RBI advised regulated entities to formulate a Board-approved policy regarding the pricing of interest rates on microfinance loans and other charges applicable to such loans.
3. Each regulated entity was mandated to present information related to pricing in a standardized and simplified fact sheet.
4. The RBI issued directives prohibiting prepayment penalties on loans, restricting late payment penalties solely to the overdue amount, and requiring prior intimation regarding any changes related to the loan.
5. Regulated entities are required to identify individuals facing repayment difficulties and provide them with necessary guidance.

It is pertinent to note that all the aforementioned provisions apply exclusively to Non-Banking Financial Companies–Micro Finance Institutions (NBFC-MFIs).

Although the RBI has not undertaken any direct initiatives specifically for ‘Green Microfinance,’ its 2024 circular has undoubtedly paved the way for the growth of Green Microfinance by introducing greater transparency.

Role of NABARD

The National Agricultural and Rural Development Bank (NABARD) was created on July 12, 1982, with the purpose of promoting agricultural and rural development that is both sustainable and equitable. It performs a variety of roles, including the facilitation of agricultural financing and banking technology, as well as the promotion of microfinance and rural entrepreneurship through the use of Self-Help Groups (SHGs) and Joint Liability Groups (JLGs).

The NABARD organization does not carry out its functions directly but rather through its subsidiary businesses. The subsidiaries that fall under the umbrella of NABARD are as follows: NABKISAN, NABSAMRUDDHI, NABFINS, NABFOUNDATION, NABVENTURES, and NABSAMRAKSHAN. Every single one of these supporting institutions contributes, either directly or indirectly, to the growth of green microfinance. A model that is distinct from that of other microfinance institutions is utilised by NABFINS, which is a Non-Banking Financial Company–Microfinance Institution (NBFC-MFI). This is an important fact to take into consideration.

NABARD Initiative: Green Climate Fund

The Green Climate Fund was established by the UNFCCC (United Nations Framework Convention on Climate Change) while the sixteenth Conference of the Parties (COP 16) was taking place. The purpose of this organization is to offer financial and advisory assistance to developing nations that are ecologically sensitive to assist these nations in lowering or limiting their emissions of greenhouse gases and adapting to the effects of climate change.



During the 10th Board Meeting of the Green Climate Fund, held on July 9, 2015, NABARD was accredited as a Direct Access Entity. Subsequently, during the 34th Board Meeting of the Green Climate Fund, held in October 2022, NABARD was once again selected as a Direct Access Entity.

Under a project approved by the Green Climate Fund, initiatives for groundwater recharge and solar-powered micro-irrigation were undertaken in the vulnerable tribal regions of Odisha, while credit facilities for rooftop solar energy systems in commercial, industrial, and residential sectors were extended across India.

Green Investment Policy Framework

Clean energy, green energy, and renewable energy are types of energy derived from natural resources that are constantly regenerated more quickly than they are used. Examples of green energy include sunlight and green hydrogen energy, whereas non-renewable fuels like coal, oil, and gas require hundreds of millions of years to produce and release harmful greenhouse gases. The world is facing a worldwide disaster, and the only solution is to shift from fossil fuels to renewable energy. Two policy objectives for inclusive solutions to the green transition are inclusive growth and green growth. The small and medium-sized businesses (SMEs) are vital for worldwide economic activity, social welfare, and environmental impacts. The Intergovernmental Panel on Climate Change (IPCC) says emissions from burning fossil fuels are the main driver of recent warming. The automobile and electrical industries are at the forefront of this transformation, together making up 40% of India's emissions. Decarbonising these industries is key to India's climate targets, and the dropping prices of electric cars will boost adoption. Electric vehicles might make up a third of four-wheelers and half of two-wheelers marketed by 2030, and 75% and 90% respectively by 2050. This growing shift opens up the possibility for investors to build wealth.

Green branding is a modest strategy for luring green investment, according to the results of the analysis of research and scholarly journals on the subject. The international scientific community has not agreed upon any standard definitions of green branding or green investing. When developing strategies, it is important to take into account the brand positioning of a green brand. Brand positioning can take many different shapes, including utilitarian, eco, and emotional. The major target audience should be taken into account when creating green brand strategies.

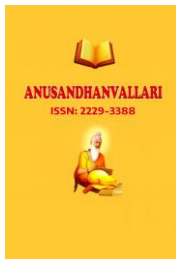
An investment in green assets that lessens the adverse effects of climate change on the environment is known as a "green investment." A focus on green objectives and alignment with sustainable development goals are the core traits of green investment. To draw in more green investment, businesses need to implement the right marketing strategy to establish their green brand. The features of green investment should be considered in the green brand concept. Businesses can obtain a competitive advantage and secure funding for green initiatives with the aid of green brand positioning. Additionally, it might be utilized to obtain a competitive advantage. To show their greening forces, businesses should embrace green technologies rather than engage in greenwashing.

Green Infrastructure: The Global Challenge

There is a lack of private funding for green infrastructure, and regional inequalities are making it harder to achieve global climate objectives and move sustainable development forward.

There has already been a difficult financial environment for many EMDEs, but the recent COVID-19 outbreak, the conflict in Ukraine, and worsening global financial conditions have made things much worse. Critical development outcomes, such as investments in green infrastructure, are frequently inextricably tied to these markets, and these markets risk being shut off from important financial channels as a result of these circumstances. It is imperative that the G20 immediately prioritise the operationalisation of the global financial architecture for investment in green infrastructure in EMDEs.

Over the past 17 years of collaborating with major private investors to raise funds for environmentally friendly infrastructure, it has become clear that increasing the "bankability" of deals is a major challenge when it comes to



increasing climate finance. The authors of this policy brief collaborated with various groups to create a new framework that will help private investment in emerging market and developing economies (EMDEs). These groups include GFANZ, GFL, the Global Infrastructure Hub, Impact Investing Taskforce, Blended Finance Taskforce, and members of the Independent High-Level Expert Group on Climate Finance.

Conclusion

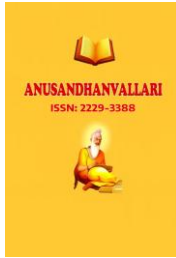
Microfinance has undoubtedly proven to be a mechanism that has ushered in a revolutionary transformation within society a trend observed not only in Indian society but across the entire globe. However, the adverse effects of environmental degradation are currently being witnessed firsthand worldwide, consequently placing both the present and the future in jeopardy. Nevertheless, nations across the globe are making concerted efforts at both national and international levels to address this crisis. India, too, consistently establishes and organizes various institutions and projects at national and regional levels to tackle these issues promptly. Consequently, over the past few years, India has also geared up to mitigate adverse environmental impacts within its microfinance sector through the adoption of 'Green Microfinance.' According to this study, the Reserve Bank of India, the country's apex banking institution, has revised its decades-old guidelines regarding the microfinance sector; this move indirectly paves the way for steering microfinance toward a Green Microfinance paradigm. NABARD, which, without exaggeration, can be described as the "mother of microfinance" in India, has also unhesitatingly taken steps toward Green Microfinance, often in collaboration with its subsidiary institutions. Furthermore, NABARD has advanced its efforts toward Green Microfinance by forging partnerships with external organizations. Sa-Dhan (the Association of Community Finance Institutions), a self-regulatory organization, has made the transition of microfinance toward Green Microfinance a key agenda item during its annual conferences. Through collaborations with various organizations such as the FINISH Society, Water.org, and others Sa-Dhan has successfully implemented Green Microfinance projects at the grassroots level. Based on an analysis of all the discussions presented in this study, it becomes evident that Green Microfinance can play a pivotal role at the national level in bolstering the economy, fostering women's empowerment, facilitating post-COVID recovery and development, and achieving Sustainable Development Goals objectives that constitute a pressing imperative within the current Indian landscape.

Limitations

- In the preparation of this research paper, open-access research studies from databases such as Google Scholar, Semantic Scholar, and ResearchGate have been utilized.
- This study relies exclusively on secondary data.
- In addition to the databases, reference has been made to various authorized websites, as well as annual and government reports.

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