

What is Climate Finance Taxonomy?

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About Climate Finance Taxonomy:

- It is a system that **classifies** which parts of the economy may be **marketed as sustainable investments**.
- It helps guide investors and banks in directing trillions toward impactful investments to tackle climate change.
- Taxonomies are frequently used to set standards for **classifying climate-related financial instruments** (e.g., green bonds), but, increasingly, they serve other use cases where the benchmarking feature is viewed as beneficial, including in the areas of climate risk management, net-zero transition planning, and climate disclosure.
- South Africa, Colombia, South Korea, Thailand, Singapore, Canada, and Mexico are some of the countries which have developed taxonomies. The European Union has done this as well.
- **Significance**
 - With global temperatures soaring, and the adverse effects of climate change exacerbating, countries need to transition to a net-zero economy — the balance between the amount of greenhouse gas (GHG) that is produced, and the amount that is removed from the atmosphere.
 - It can play a pivotal role in doing this as they can help ascertain if economic activities are **aligned with credible, science-based transition pathways**.

- They can also give impetus to deployment of climate capital, and reduce the risks of greenwashing.
 - It will **enhance the availability of capital** for climate adaptation and mitigation. This will help India achieve its climate commitments and green transition.
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Q1: What are Sustainable Development Goals (SDGs)?

They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Source: What is a climate finance taxonomy, announced by FM Sitharaman?

Source: <https://vajiramandravi.com/current-affairs/climate-finance-taxonomy/>

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