

Green Financing Practices in India: An overview

Author: Dr. Babu K. A., *

*Associate Professor, Department of Commerce, Government First Grade College,
Harihara – 577601. Karnataka state. E-Mail: babajang2006@gmail.com

ABSTRACT

Economic growth and development of any country majorly depend on its economic activities. Economic activities involve production and distribution of goods and services by an individual/organization to satisfy the needs and wants of clients with the intention of making profits. These activities are mainly dependent on finance which acts as a backbone of an economy of any country. But, mere economic development without maintaining sustainability component goes in vain. Hence, the economic development with the concern on environment is considered to be sustainable economic growth. In this regard, finance sector in the recent past has made an attempt of adopting this sustainability philosophy in their business activities globally. Environmental concern adopted by finance sector is coined as Green Finance. Thus, green finance is an innovative measure of financing investment projects which are involved in producing products which are supporting environment or the projects which eliminate harm to the environment. This also includes investment in stocks, bonds and mutual funds of companies whose operations directly or indirectly environment friendly. This research article is descriptive in nature which is carried out with the intention of elaborating on the different types of initiatives adopted by finance sector under green financing in order to ensure sustainable economic growth of the country. It is also intended to discuss the recent trends, challenges and future prospects for green financing in the present competitive economy which is aiming towards achieving high results at the cost of spoiling environment and distracting the nature.

Key-Words: Green financing, Environment, Economic growth, India.

INTRODUCTION

In the present era, every act of human being is contributing towards environmental pollution in the name of economic development and improved standard of living. Majority of the technological advancements and business expansions resulted in the erosion of environmental resources. Over exploitation of natural resources, emission of harmful gases and chemicals polluting both air and water have resulted in the deterioration of the environmental conditions. Hence, there is an urgent need for everyone to protect our environment and preserve non-renewable natural resources as they are posing problems such as high-level competition for scarce resources, depletion of ozone layer, increased pollution and global warming.

Therefore, it is right time for us to think in the direction of finding solutions for the problems and also identifying measures to tackle such environmental issues which have already cropped up.

Economic growth and development of any country majorly depend on its economic activities. Economic activities involve production and distribution of goods and services by an individual/organization to satisfy the needs and wants of clients with the intention of making profits. These activities are mainly dependent on finance which acts as a backbone of an economy of any country. But mere economic development without maintaining sustainability component goes in vain. Hence, the economic development with the concern on environment is considered to be sustainable economic growth. In this regard, finance sector in the recent past has made an attempt of adopting this sustainability philosophy in their business activities globally. Environmental concern adopted by finance sector is coined as Green Finance. Thus, green finance is an innovative measure of financing investment projects which are involved in producing products which are supporting environment or the projects which eliminate harm to the environment. This also includes investment in stocks, bonds and mutual funds of companies whose operations directly or indirectly environment friendly.

Industrial revolution has caused different types of pollutions to the environment. Hence, green finance is an innovative idea to protect further damage to the environment in the future. It may include minimizing energy consumption and reducing of waste. Small Industries Development Bank of India (SIDBI) has initiated several measures of lending for small and medium business enterprises which have adopted energy efficient technology in their business operations. Government should come up with the financial policy of not offering financial services to such business projects whose operations harm environment and sustainability. This concept of sustainability has gained greater attention globally.

REVIEW OF LITERATURE

It is found that many research studies have been carried out on the concept of green financing. Few such studies have been elucidated below:

P. Dhoot and S. Awate (2021) carried out a descriptive research study to know the different green financial products and services offered by Indian finance sector, their trend and challenges. It is found that the green finance market is offering various innovative services and it is at an emerging stage in India. Since investors lack awareness about green financial instruments, there is an opportunity for attracting huge number of investors towards green finance market.

Mohd Saleem and Matloob Ullah Khan (2021) conducted a theoretical review work on green finance and its prominence in the context of sustainable development and environmental protection. This research work attempted to remove contradictory views between business objective and environmental issues in the context of green finance. They have also proposed several measures to achieve ecological balance and economic growth through green finance.

Parvadavardini et al (2016) attempted to study the feasibility of green finance concept in a county like India, which is a growing economy where it is difficult to strike a balance between ecological balance and the economic development. In this research paper challenges and future prospects of green finance have been discussed. Green investing is identified as feasible initiative in India which recognizes the value of the environment and its natural resources.

Sushma B. S. (2021) evaluates the opportunities and challenges for Green finance in developing countries and attempts to offer new insights to green finance initiative as a tool to achieve sustainability. It is suggested that the suitable regulatory framework needs to be set in order to evaluate the green projects and to ensure that the funds of the investors is properly invested. It is concluded that the green finance works as an effective tool for sustainable development if managed properly.

OBJECTIVES OF THE STUDY

The research paper mainly intends to know the importance green financing in sustainable development of the country. Below mentioned are the other objectives with which the present research study is carried out:

- To study various green finance measures adopted in India
- To analyze various challenges in the adoption of green finance initiative
- To explore prospects of green financing in India

RESEARCH METHODOLOGY

The study carried out is a descriptive in nature and it is based on secondary data drawn from various official reports released by different departments of Government of India and other published reports of public and private sector organizations, financial institutions, Reserve Bank of India and various other banks in India.

Significance of Green Finance

Green Finance plays a very crucial role on any country' sustainable development. The impacts of Green Finance on various areas are elucidated below:

- **Increase in the production of renewable energy:** Renewable energy sector is one of the important sectors having positively impacted due to the advent of Green Finance initiative. If green finance offers financial services to wind, solar and hydropower projects, the production of such energy can be increased. India is a fourth largest country in terms of having installed renewable energy plants.
- **Helps in adopting to climatic changes:** Investment in environment friendly projects such as sustainable agriculture, climate-resilient infrastructure and conservative water management projects will help country in adopting to climatic conditions.
- **Decelerate in carbon emissions:** investment in renewable energy projects, energy efficient projects and also pollution control projects will reduce carbon emission drastically.

- **Biodiversity and ecosystem conservation:** Green finance has played a role in conserving India's rich biodiversity through funding tools like conservation bonds and sustainable forestry funds. This financial assistance has supported protected areas, wildlife reserves, and sustainable land use practices, helping to secure ecosystems that are vital for environmental health and economic resilience.
- **Sustainable Urbanisation:** India's Smart Cities Mission, backed by green finance, has advanced sustainable urban growth by incorporating renewable energy, waste management, and eco-friendly transportation into urban planning. This funding has enabled cities to adopt green technologies, cut pollution, and enhance residents' quality of life.

Financial instruments fostering Green Financing

Following are the important financial instruments in circulation in the country which promote the Green financing to various investment projects.

- **Green bonds:** These are fixed-income securities issued to raise capital to finance environmentally beneficial projects.
- **Green loans:** Loans offered at preferential rates by financial institutions to public and private organisations and individuals. Examples are electric vehicle financing, loans for the installation of solar panels, etc.
- **Sustainability-linked green loans:** These are green loans with predefined performance targets toward environmental sustainability. Borrowers are incentivised to achieve these targets.
- **Green funds:** Investment instruments focused on companies with strong environmental, social, and governance (ESG) performance.
- **Carbon finance:** It involves incentivising businesses to reduce or trade off their carbon emission through trading of carbon credits.
- **Green Insurance:** This emerging field offers insurance products that cover environmental risks and promote sustainable practices.

Challenges of Green Financing

Green financing is an emerging field in finance having following outlined challenges.

- **No strong financial mechanism:** Entire world is facing the challenge of shortage of strong mechanism, structure and institutions for supporting the green finance initiatives.
- **Investment with high risk and low return:** the most general perception is that the investment in green projects pose high risk and offer low return on investment. It is because green finance lacks of standardisation and non-availability of data.
- No standard tax system on green finance products
- **Long gestation period:** Green finance projects are having comparatively very long gestation period for many green projects

Prospective areas for offering Green Finance in India

Following are the various business areas to which Green Financing facility can be provided in order to achieve sustainable development of the country. Those areas are:

1. Waste Management services:

In the development transition and urbanisation, waste management has become a major challenge to almost all the countries. This service has evolved from age old municipal waste collection service to tech – driven solutions adopted by many companies operating in this field. The key players in this area are:

- (A) **Saahas Zero Waste:** it offers zero waste programs, conducts waste audits and also helps companies in their EPR (Extended Producer Responsibility) compliance.
- (B) **Antony Waste Handling Cell Ltd:** It is one of the key players in Municipal solid waste management. It is engaged in sweeping, collecting, transporting and converting waste to energy.
- (C) **BVG India Ltd:** It is a leading waste management company providing services like housekeeping, waste management and renewable energy solutions.
- (D) **Attero:** This is an Indian premier e-waste and lithium-ion battery recycler, engaged in sustainable tech solutions of extracting valuable metals from discarded electronics and supporting a circular economy.
- (E) **Eco Recycling Ltd:** it is a leading India's e-waste management company, engaged in services of reverse logistics, data destruction, IT asset disposition.

2. Industrial pollution control services: these services offer solutions for managing and reducing harmful emissions from factories, ensuring environmental health and avoiding fines. It also involves legal compliance services to various industries like manufacturing, pharma and energy.

3. Sanitary services: Sanitary services include maintenance of sewages, septic tanks for safe disposal of human waste, maintaining hygiene and clean public areas in order to prevent diseases and environmental contamination.

4. Energy efficiency/Energy conservation services: Energy efficiency or energy conservation services help people reduce energy consumption through technology upgrades like LEDs, solar for homes, offices and industries.

5. Renewable energy services: it is a source of energy from sunlight, wind, water, biomass and so on for a sustainable alternative to reduce pollution and greenhouse gases. There are many companies engaged in producing this kind of energy which is environmentally friendly.

Regulatory Framework and Government Initiatives

Government of India has issued regulatory framework which promotes green financing in various sectors of the economy and has come up with various initiatives in support of green finance. Some of the major initiatives are:

- A) **SEBI Guidelines:** Securities and Exchange Board of India has issued various guidelines with regard to issue of green bonds and also to ensure transparency as well as credibility of green bonds.

- B) **RBI Guidelines:** Reserve Bank of India has directed all the scheduled commercial banks lend loans to renewable energy sector on priority basis.
- C) **IREDA (Indian Renewable Energy Development Agency) initiative:** This agency has taken an initiative of issuing green bonds from 2022
- D) Government of India has developed a framework towards issuance of sovereign bonds for public spending mainly for the sustainable development projects.

CONCLUSION

Industrial revolution has caused severe damage to the environment and natural resources of the country. Economic growth and development of any country majorly depend on its economic activities. Economic activities involve production and distribution of goods and services by an individual/organization to satisfy the needs and wants of clients with the intention of making profits. These activities are mainly dependent on finance which acts as a backbone of an economy of any country. But mere economic development without maintaining sustainability component goes in vain. Hence, green finance is an innovative idea to protect further damage to the environment in the future. It may include minimizing energy consumption and reducing of waste. Hence, the economic development with the concern on environment is considered to be sustainable economic growth. Government should come up with the financial policy of not offering financial services to such business projects whose operations harm environment and sustainability.

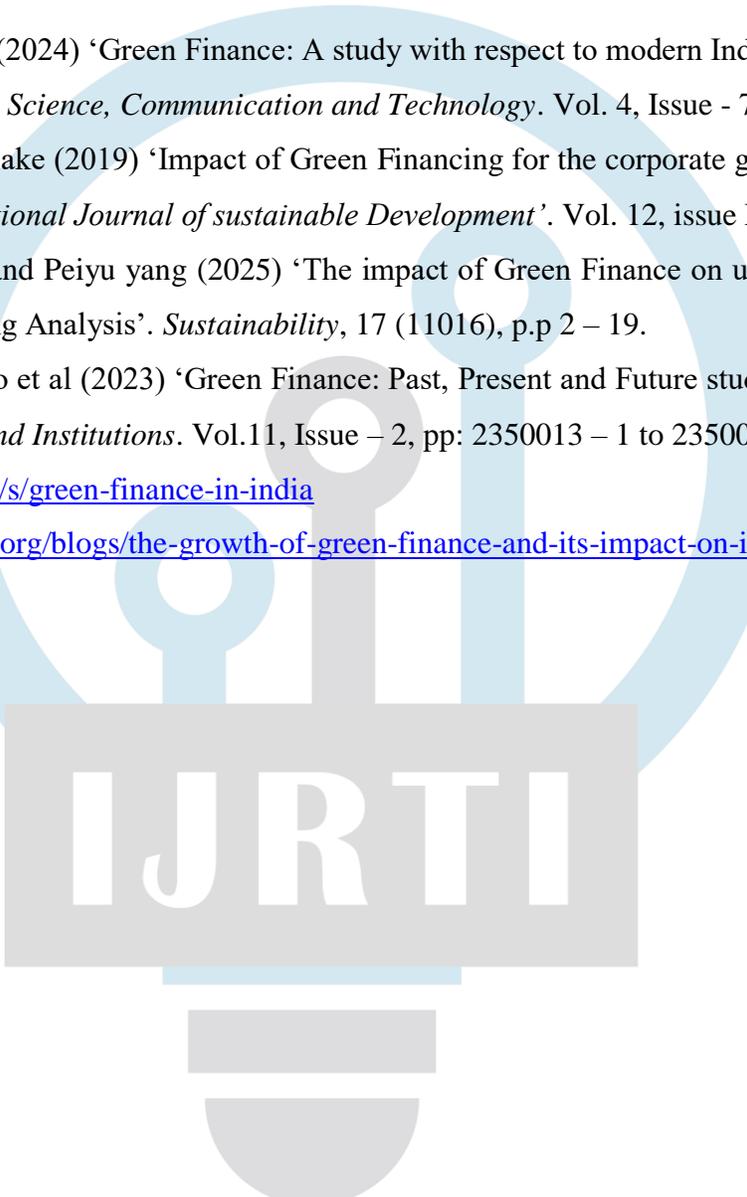
NO CONFLICT OF INTEREST:

I declare that I have no conflicts of interest related to this research article

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