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Driving Sustainability: The Role of Financial Institutions in Green Investments in India

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Abstract

India's future economic and environmental prosperity depends on its shift to a low-carbon, sustainable economy. By directing capital into environmentally conscious businesses through a variety of tactics, such as eco-friendly financial instruments, sustainable loans, and green bonds, financial institutions play a crucial role in enabling this transition. These organizations keep an eye on initiatives to combat climate change and environmental degradation and have a big say in market rules. This study examines the ways in which financial institutions promote the expansion of green industries, advance international environmental goals, and aid in the shift to a low-carbon economy. According to the research, the main obstacles to the broad use of green financing are low investor awareness, complicated regulations, and financial hazards. With banks, asset managers, insurance providers, and other financial intermediaries becoming more dedicated to assisting sustainable projects, the role of financial institutions in encouraging green investments has grown in significance in recent years. This study highlights new developments in green finance while delving deeper into the difficulties and obstacles these institutions encounter in India. The goal is to provide light on how financial institutions may better encourage sustainable investment, which will help to mitigate climate change and promote sustainable development.

Keywords: Green finance, green investment, financial institutions, low carbon economy, ESG.

Introduction

Financial institutions are playing a more significant part in encouraging green investments as the need to address climate change and other environmental issues becomes more pressing. The term "green finance" describes the investment of funds in initiatives that promote environmental preservation, sustainability, and the preservation of natural resources. In order to facilitate these investments, which are crucial for reaching global sustainability targets, this paper examines the many roles that banks, asset managers, insurance firms, and other financial intermediaries play.

Allocating funds to projects, businesses, or parts that place a high priority on resource conservation, environmentally friendly technologies, and sustainable practices is known as "green investment." The ultimate goal is to make a beneficial environmental impact while producing financial gains. As intermediary firms in the financial market, financial institutions play a crucial role in this ecosystem by directing money from individual investors into financial assets including stocks, bonds, loans, and deposits.

A wide spectrum of financial institutions, including asset managers, non-bank financial firms (NBFCs), and commercial banks, are crucial to the promotion of green investments in India. This study discusses the legislative frameworks that govern these institutions' operations, the opportunities and challenges they face in the green finance landscape, and the role these institutions play in advancing green finance in India. With the use of this study, the paper hopes to clarify how these organizations may help sustainably growing investments in India.

Literature Review

- Darshan P, Yatish Gowda KR, Shivaraju A (2024) The Role of Financial Institutions in Promoting Green Investment The research paper emphasizes how crucial green investments are to both economic and environmental development. However, because of the initial financial load, local financial institutions in India lag behind their international counterparts. To promote sustainable finance, the study urges the government and

RBI to enact green policy directives and offer financial incentives.

- Dayanand A Mugali; Prof. Maruti Sadav; Dr. Janmani, Jyoti (2024) The Role of Financial Institutions in Promoting Green Finance and Sustainable Development of India According to the study, financial institutions are essential to bringing green financing into the mainstream economy with the correct reforms and assistance. Opportunities for the environment and the economy are presented by the shift to sustainability. It is crucial to address issues through investor education, risk reduction, and policy frameworks. By elucidating risks and profits, standardized evaluation frameworks will further attract investments.
- R. Ghosh (2022) Green Finance and Financial Inclusion in India: An Empirical Analysis This study analyses the ways in which Indian financial institutions may advance financial inclusion and green finance. It looks at tactics that increase underprivileged populations' access to financial services while promoting sustainable investments. The study emphasizes how combining these objectives might promote long-term sustainability and equitable growth.
- Ozili, Peterson K. (2022) With an emphasis on important ideas like the function of financial institutions and laws in advancing green finance through technology and policy, this study examines the body of knowledge already available on the subject. The results demonstrate that green financing may significantly improve the environment.
- Patel, V. (2021). Green Finance Policies in India: An Evaluation. This study assesses how well the Indian government's and financial institutions' green financing initiatives are working. It identifies these policies' advantages and disadvantages and makes recommendations for enhancements to better match them with sustainability objectives.
- Keerthi B. S. (2020) A Study on Emerging Green Finance in India: Its challenges and Opportunities This study analyses the most recent advancements, difficulties, and prospects in India's green finance sector. Extended studies on the creation of green jobs, highlighting the importance of attaining equitable and sustainable agricultural and rural prosperity. Strategic measures like improved credit support services and creative methods can help with this.
- S. Mukherjee (2019) Green Finance in India: Progress and Challenges With an emphasis on the functions of banks and other financial organizations, this study investigates the current status of green finance in India. It tackles issues like low awareness and poor infrastructure and emphasizes the necessity of supportive policy frameworks to promote green investments.

Research Objective

- To analyse the role of Indian financial institutions in facilitating green investments.
- To assess the challenges and barriers faced by Indian financial institutions in promoting green investments.
- To identify emerging trends and opportunities in green finance in India.

Research Methodology

The single source of data and information used in this study are secondary sources. It makes use of a broad variety of

standard literature, such as books, periodicals, newspapers, scholarly articles, and peer-reviewed journals. These resources offer a thorough grasp of the topic by presenting conclusions drawn from previous studies and professional evaluations. The study relies on the validity and dependability of published sources to bolster its findings and conclusions because no primary data collecting was done.

Role of Indian Financial Institutions in Facilitating Green Investments

- **Banks' Role in Promoting Green Investments in India:** In India, banks play a key role in funding green initiatives. Both public and private Indian banks have launched a number of green finance initiatives aimed at sustainable infrastructure, energy-efficient technology, and renewable energy.
 - **Green Bonds and Bank Participation:** To raise money for ecologically friendly initiatives, banks including as ICICI, Axis Bank, and SBI have issued green bonds. For instance, in order to fund renewable energy projects, ICICI Bank issued a \$500 million green bond in 2017 (ICICI Bank, 2017). These bonds give investors the chance to match their portfolios with sustainability objectives while also allowing financial institutions to raise funds for projects that benefit the environment.
 - **Green loan by Banks:** Indian commercial banks, including SBI, HDFC, and Axis Bank, provided favourable loan conditions for ecologically friendly enterprises and initiatives. For example, SBI provides "Green Building" loans to developers so they can finance the construction of energy-efficient structures. Banks have also taken a proactive role in funding renewable energy projects, such as wind and solar power.
- **Green Investment Funds & Asset Managers:** Indian asset management companies have been incorporating ESG factors into their investment plans more and more. In order to cater to socially conscious investors, major asset managers like HDFC Asset Management and UTI Mutual Fund have introduced ESG-focused investment products.
 - **ESG Integration:** Asset managers are investing in companies that place a high priority on corporate governance and environmental sustainability by incorporating ESG considerations into their investment strategy. In response to the increasing demand from investors for sustainable financial solutions, Indian asset managers have introduced ESG investment funds.
 - **Impact Investment Funds:** These funds, which concentrate on areas like clean technology, social infrastructure, and renewable energy, are becoming more and more well-liked. These programs give money to companies and initiatives that produce quantifiable environmental and social benefits.

Challenges and Barriers Faced by Indian Financial Institutions in Promoting Green Investments

- **Lack of Standardization:** The absence of uniform definitions and standards for green investments is one of the main issues Indian financial institutions are dealing with. Even though SEBI has published rules for the issuing of green bonds, investors find it challenging to evaluate the actual environmental impact of financial

products due to the lack of standardized standards. Transparency and investor confidence in green finance would increase with the establishment of precise and widely recognized standards.

- **Risk Perception and Market Conditions:** Because of their lengthy payback times, confusing legal frameworks, and difficulties in determining their environmental impact, green projects are frequently seen as high-risk ventures. Institutional investors are deterred from funding sustainable projects by this assumption. Government-backed risk reduction measures, like guarantees and subsidies, are necessary to address these issues and increase the appeal of green investments.
- **Limited Awareness and Expertise:** Financial institutions lack the knowledge and experience necessary to fully understand the benefits and dangers of green investing. Many stakeholders and investors lack the technical expertise needed to properly assess and oversee green projects. Initiatives to increase capacity, specific training courses, and knowledge-sharing forums are necessary to give financial professionals the know-how to evaluate green projects. Encouraging cooperation between financial institutions and industry professionals will increase knowledge and encourage investment in sustainable projects.

Emerging Trends & Opportunities in Green Finance in India

- **Awareness and Education:** Growing knowledge of the advantages of sustainable practices among investors, companies, and individuals is essential to the expansion of green finance. Green finance can become more accessible and broadly accepted by fostering favorable attitudes about it through educational initiatives and financial literacy initiatives.
- **Expansion of Carbon Markets:** With programs like the Perform, Achieve, and Trade (PAT) scheme, which encourages businesses to cut emissions, India has advanced the development of the carbon market. Growing domestic and global carbon trading markets will stimulate investments in low-carbon technologies and open up new avenues for green finance.
- **Accessibility and Inclusion:** Green finance needs to be inclusive in order to succeed, guaranteeing that low-income groups, rural communities, and small and medium-sized businesses (SMEs) can obtain green financial solutions. Innovative solutions, such microfinance and concessional loans for green projects, must be created by financial institutions to meet the demands of these markets.
- **Fintech Innovations and Digital Platforms:** Green finance is about to undergo a revolution thanks to the combination of fintech solutions and digital platforms. Blockchain technology, for example, can improve transparency and guarantee that money is spent as intended. Digital tools can also make it easier to allocate green funds efficiently and increase accessibility for a wider variety of investors.
- **Encouraging Green Private Equity and Venture Capital:** Innovation can be accelerated by encouraging private equity (PE) and venture capital (VC) businesses to invest in green enterprises. Investments in sustainable businesses can be enticed by incentives such tax breaks, co-investment opportunities, and favourable regulatory treatment. The creation of green incubators and

accelerators will aid early-stage businesses in expanding their operations.

- **Establishing a Fund for Green Finance:** Startups and SMEs engaged in green initiatives may be eligible for concessional financing through a special Green Finance Fund backed by donations from the public and private sectors. In order to lower capital costs and allow smaller companies to take part in the green finance ecosystem, this fund may provide qualified initiatives with low-interest loans, grants, and equity funding.

Conclusions

In conclusion, by enabling investments in sustainable projects, such as green bonds, green loans, and ESG-focused funds, financial institutions in India significantly contribute to the nation's shift to a green economy. These programs are essential for allocating funds to ecologically responsible projects, which are essential for achieving India's economic and sustainability objectives. However, there are a number of obstacles facing the green finance scene, including a lack of uniformity in green investment standards, the perception of risk brought on by lengthy payback periods, and a lack of experience inside financial institutions.

India must improve investor education, provide clear guidelines for green investments, and implement government-supported initiatives like guarantees and subsidies to lower perceived risks in order to get over these obstacles. Building financial institutions' capacity is crucial to giving professionals the tools they need to assess and oversee green initiatives successfully. The industry's general comprehension of green finance will also be enhanced by cooperation between financial institutions and industry specialists.

Despite these challenges, emerging trends such as the expansion of inclusive financial solutions, fintech advancements, and carbon market growth present encouraging prospects for the advancement of green finance in India. Initiatives like Green Finance Funds and the creation of new financial products suited to various industries can help reduce capital costs and promote smaller companies' involvement in green projects. In the end, resolving these issues and utilizing new developments will assist India in achieving its objectives for the green economy and promoting environmental sustainability worldwide.

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