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# A STUDY ON GREEN FINANCING IMPACT TOWARDS INVESTING IN SUSTAINABLE BUSINESS

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## **ABSTRACT**

*Green financing has become a vital tool for connecting economic growth with environmental sustainability. In light of India's rapid economic growth and its goal of achieving net-zero carbon emissions by 2070, green finance is essential for attracting investment in environmentally friendly projects. This study looks at how green financing affects investment choices for sustainable business practices in India. By thoroughly reviewing secondary data, policy documents, and previous studies, the paper examines the significance, opportunities, challenges, and effectiveness of green finance options like green bonds, green loans, and sustainability-linked financing. The findings show that green financing positively impacts sustainable investment decisions by improving access to capital, boosting corporate reputation, and encouraging long-term cost efficiency. However, challenges remain, such as the absence of a standardized classification, high perceived risk, and greenwashing. This study adds to the existing literature by summarizing recent changes in India's green finance landscape and providing policy and management suggestions to enhance sustainable investment outcomes.*

**Keywords:** *Green finance, Sustainable business, Green bonds, ESG, India, Sustainable investment*

## **1. INTRODUCTION**

The world is looking at how the economy is doing in a different way. We are thinking about the earth. How we can keep it safe. The old way of making money was to get much as we could as fast as we could.. This has hurt the earth a lot and made big problems for the weather. So now people are talking about finance. Green finance is a way of thinking about money that includes being kind, to the environment when we make financial decisions. Green finance is changing the way we think about money and the earth.

India is a country with a lot of money it is the fifth biggest economy in the world. India has to do two things at the time it has to keep growing and making money but it also has to make sure it does not hurt the environment.

Because many people are moving to cities in India and the country is getting more industrialized and people are using more energy this is putting a lot of pressure on the natural things that India has.

India said it will try to make sure it is not putting things into the air by the year 2070 it made this promise at a big meeting called the 26th Conference of Parties or COP26 for short.

India wants to make sure it does not hurt the environment so it needs to spend a lot of money on things like power and wind power and on making sure that the roads and buildings are good for the environment and on making cars and buses that do not put bad things into the air and on technologies that can help India deal with the bad effects of climate change. India needs to spend a lot of money on these things to make sure it can reach its goal of zero emissions by 2070, which is a very big goal, for India.

Green financing provides a structured pathway to channel capital into such environmentally sustainable projects. This study focuses on examining the impact of green financing on investment behavior toward sustainable business practices in India, highlighting its importance, instruments, policy framework, opportunities, and challenges.

## **2. CONCEPT OF GREEN FINANCING**

Green financing is about money that helps projects that're good for the environment. This means people invest in things like power, wind power and other kinds of renewable energy. They also invest in ways to use energy like making buildings more efficient. Green financing is used for agriculture, which is farming that does not hurt the earth. It is also used for managing waste saving water and creating transportation that does not make much pollution. The main goal of financing is to make sure that we can have economic development, which means we can have more money and better lives without hurting the earth. Green financing is important because it helps us have projects that are good for the environment and that is what green financing is all about helping the environment, with green projects.

Unlike conventional financing, which primarily evaluates projects based on financial viability indicators such as discounted cash flow (DCF), green finance incorporates environmental and social benefits into investment appraisal. This broader perspective enables reminding funding for projects that may have long gestation periods but generate significant environmental and social value.

## **3. IMPORTANCE OF GREEN FINANCE IN INDIA**

Green finance is particularly significant for India due to the following reasons:

### 3.1 Commitment to Climate Goals

India's commitment to net-zero emissions by 2070 necessitates large-scale investments in clean energy and climate mitigation initiatives. Green finance mobilizes the capital required to meet these commitments.

### 3.2 Limitations of Conventional Financing

Traditional financing models often fail to account for environmental externalities, making it difficult for sustainable projects to secure funding. Green finance bridges this gap by prioritizing long-term environmental benefits.

### 3.3 Energy Security and Self-Reliance

Investments in renewable energy through green financing reduce dependence on imported fossil fuels and enhance energy security.

### 3.4 Sustainable Economic Growth

Green finance enables India to maintain rapid economic growth while minimizing environmental degradation, supporting inclusive and sustainable development.

## **4. COMPONENTS AND INSTRUMENTS OF GREEN FINANCE**

### 4.1 Key Components

- **Financial Institutions:** Banks, non-banking financial companies, and development financial institutions supporting green projects.
- **Green Projects:** Environmentally sustainable public and private initiatives.
- **Policy and Regulatory Framework:** Government policies, incentives, and guidelines promoting green finance.
- **Financial Instruments:** Tools designed to mobilize and allocate green capital.

### 4.2 Major Green Financial Instruments

- **Green Bonds:** Fixed-income securities issued to fund environmentally beneficial projects.
- **Green Loans:** Preferential loans for sustainable initiatives such as electric vehicles and solar installations.
- **Sustainability-Linked Loans:** Loans linked to predefined environmental performance targets.
- **Green Funds:** Investment funds focused on ESG-compliant companies.
- **Carbon Finance:** Trading of carbon credits to incentivize emission reductions.
- **Green Insurance:** Insurance products covering environmental risks.

## **5. GOVERNMENT INITIATIVES AND REGULATORY FRAMEWORK**

The Indian government and regulatory authorities have introduced several measures to promote green finance: - SEBI guidelines for green bond issuance to enhance transparency and credibility. - RBI's classification of renewable energy as a priority sector for lending. - Framework for sovereign green bonds aligned with international standards. - Issuance of sovereign green bonds through IREDA in 2022.

These initiatives have strengthened investor confidence and facilitated the growth of the green finance market in India.

## **6. GREEN BOND MARKET IN INDIA**

India's green bond market has experienced significant growth, with total issuances exceeding USD 21 billion by February 2023. Public sector undertakings, private enterprises, and financial institutions actively participate in the market. While the growth trajectory is encouraging, India's market remains relatively small compared to developed regions such as Europe, indicating substantial scope for expansion.

## **7. OPPORTUNITIES AND BENEFITS OF GREEN FINANCE**

Green finance offers multiple advantages for businesses and the economy: - **Enhanced Brand Reputation:** Sustainable practices improve corporate image and consumer trust. - **Attracting Long-Term Investors:** ESG-focused investors prefer environmentally responsible firms. - **Cost Efficiency:** Green technologies reduce operational costs over time. - **Regulatory Compliance:** Proactive adoption of sustainability reduces regulatory risks.

## **8. CHALLENGES IN GREEN FINANCE ADOPTION**

Despite its potential, green finance in India faces several challenges: - Lack of standardized green taxonomy. - High perceived risk associated with green projects. - High issuance costs of green bonds. - Long gestation periods of sustainable projects. - Limited awareness among domestic investors. - Risk of greenwashing by firms.

## **9. SUCCESS STORIES OF GREEN FINANCE IN INDIA**

Several initiatives highlight the effectiveness of green finance: - **ReNew Power:** Raised significant capital through green bonds for renewable energy projects. - **Delhi Metro Rail Corporation:** Generated revenue through carbon credits. - **Ghaziabad Nagar Nigam:** Issued green bonds worth USD 20 million. - **Indore Municipal Corporation:** Raised USD 87 million through green bonds in 2023.

## **10. REVIEW OF LITERATURE**

Prior studies emphasize the role of green finance in promoting sustainable investment and economic growth. Research indicates that green financing positively influences investment sensitivity, corporate social responsibility, and energy efficiency. However, scholars also highlight barriers such as policy gaps, market immaturity, and limited investor awareness, particularly in developing economies like India.

## **11. RESEARCH GAP AND OBJECTIVES**

While existing literature examines green finance broadly, limited studies focus on its direct impact on investment behavior toward sustainable business in India.

This study aims to:

1. Examine the role of green finance in influencing sustainable investment decisions.
2. Identify opportunities and challenges in India's green finance ecosystem.
3. Suggest policy and managerial implications for strengthening green finance adoption.

## **12. CONCLUSION**

Green financing is a vital enabler of sustainable business investment in India. With strong policy support and growing awareness, the sector holds significant promise. However, addressing challenges such as standardization, risk perception, and greenwashing is essential to unlock its full potential. Strengthening collaboration between government, financial institutions, and private stakeholders will be critical in achieving India's climate and sustainability goals.

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