

“Sustainable Finance: A Driving Force for The Sustainable Development of Indian Economy”

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doi.org/10.64643/IJIRTV12I6-187139-459

Abstract—Sustainable finance has gained substantial consideration as a critical tool for fostering long-term economic growth, especially in emerging economies like India. By integrating Environmental, Social, and Governance (ESG) factors into business and investment strategies, to accelerate the transition of the financial industry toward environmentally responsible practices, supporting India’s shift to a sustainable energy future. This includes addressing climate change through mitigation and adaptation, promoting biodiversity, reducing pollution, and advancing the circular economy. Social factors such as human rights, inequality, labor relations, and community investments, governance considerations, including management reforms, employee relations, and executive compensation, ensure the integration of social and environmental concerns into decision-making processes. Sustainable finance, therefore, is not just about financial returns but about creating long-term value for society and the environment. The paper seeks to explore the progress of sustainable finance in driving India’s economic development and the steps taken by the government to establish a sustainable finance ecosystem. Ultimately, offers a strategic pathway to harmonize economic growth with environmental preservation and social well-being, contributing to the achievement of the Sustainable Development Goals (SDGs).

Index Terms—In-corporation, Governance, Accelerate, Economic, Preservation

I. INTRODUCTION

Sustainable development revolves around three interconnected pillars: economic growth, social equity, and environmental stewardship. Its primary goal is to ensure that resources are available for both

present and future generations. Sustainable finance plays a key role in this effort by channeling investments into sectors that support long-term development. As global investors and policymakers increasingly embrace sustainability, environmental, social, and governance (ESG) factors are being woven into financial strategies and business decisions.

The Center for Sustainable Finance (CSF) serves as a hub for collaboration and innovation, helping the financial industry adopt greener practices and support the transition to clean energy. ESG integration in finance promotes long-term investments in initiatives that benefit the economy, society, and the planet. Environmental concerns include climate change mitigation and adaptation, biodiversity conservation, pollution control, and advancing a circular economy. Social priorities cover human rights, reducing inequality, fostering inclusion, improving labor conditions, and investing in people and communities. Governance focuses on ethical management, fair compensation, and transparent decision-making to ensure ESG principles are upheld.

Sustainable finance is a powerful tool for addressing climate challenges by promoting renewable energy and reducing emissions. It supports a shift from traditional growth models—which often ignore environmental limits—toward development that values quality over quantity. Although the concept of sustainable development has been around since the 1960s and is now widely embraced by governments and businesses, its broad scope and lack of a single definition make implementation complex. Nonetheless, it remains a vital framework for building a fair, resilient, and sustainable future.

II. REVIEW OF LITERATURE

Study has been examined sustainable finance and explored various objectives aimed at fostering the growth of the Indian economy. These studies highlight the importance of sectoral innovation, the adoption of new practices, and the implementation of profitable systems to ensure long-term sustainability. One notable outcome is the rise of green jobs, which help reduce greenhouse gas emissions, minimize pollution and waste, restore ecosystems, and uphold environmental standards. The creation of such jobs has seen consistent growth over time.

Key Publications on Sustainable Finance in India:

1. Mahesh K. M. et al. – In their study on sustainable finance's impact on MSMEs and other enterprises, the authors highlight the importance of attracting foreign direct investment (FDI) to advance technologies in sectors like eco-tourism, energy conservation, organic agriculture, and waste management. They stress the need for international cooperation to address climate change and note that major corporations are increasingly adopting green energy to align with environmental regulations.
2. Silma Lafifa Sunarya et al. – Their qualitative review of Islamic sustainable finance reveals a growing scholarly interest in the field since 2020, though it remains nascent. A word cloud analysis shows recurring themes such as Islamic finance, environmental friendliness, growth, and economic development, reflecting the core focus areas of current research.
3. Professor Alex Nicholls – In his primer on sustainable finance, Nicholls observes a global rise in demand for environmentally responsible financial instruments. The sector is expanding notably in Asia, especially in China, driven by green bonds. The ESG finance market spans a broad spectrum—from charitable contributions to competitive, high-yield investments.
4. Rohit Goel et al. – Their research on sustainable finance in emerging markets (EMs) identifies distinct challenges, including centralized financial systems, high risk premiums, and weak ESG data standards. The authors recommend targeted policy reforms to enhance transparency

and strengthen the sustainable finance infrastructure in these regions.

5. Wesam Al Madhoun – In his stakeholder-focused study, Al Madhoun compares sustainable finance to ethical and spiritual practices that foster societal and environmental harmony. He advocates for a values-driven approach to finance, emphasizing moral integrity and behavior that supports transformative, sustainable change.

III. RESEARCH GAP

While numerous studies have explored sustainable finance in areas such as advanced technologies, energy-saving e-policies, and overall sustainable development, there remains a gap in research specifically addressing its role in accelerating India's economic growth. This study aims to bridge that gap by examining how sustainable finance can benefit various sectors across India. The consistent rise in market penetration highlights the country's steady progress, yet there is a pressing need for more targeted, eco-conscious financial mechanisms particularly for MSMEs and other enterprises striving to adopt green practices.

IV. OBJECTIVES OF THE STUDY

1. To examine the concept and framework of sustainable finance.
2. To analyze the initiatives undertaken by the Government of India to promote sustainable financial practices.
3. To assess the advancement of sustainable finance in contributing to India's economic development.

V. SIGNIFICANCE OF THE STUDY

Reliable and sustainable financial systems are essential for India's economic expansion. Sustainable finance indirectly supports the development of environmentally friendly products and services. This study is vital for enhancing social inclusion, driving economic growth, and safeguarding the environment. By encouraging green energy adoption in sectors such as agriculture, electric vehicles, solar energy, and transportation, the research aims to promote efficient use of renewable resources, better water management, and a reduction in carbon emissions and pollution.

VI. RESEARCH METHODOLOGY

This study relies on secondary data collected from government publications, official websites, scholarly articles, and other credible sources. The researcher conducted a thorough review of books and government documents to derive insights and formulate conclusions.

VII. SUSTAINABLE FINANCE

Sustainable finance refers to financial tools, standards, and practices that emphasize environmental preservation. It empowers the banking and financial sectors to contribute to both economic advancement and social welfare. Through well-defined frameworks, green finance ensures that investment choices are aligned with broader sustainability objectives.

At its core, sustainable finance is built on ESG principles—Environmental, Social, and Governance. The environmental dimension includes efforts to combat climate change, protect biodiversity, and reduce pollution. Social considerations focus on tackling inequality, fostering inclusivity, enhancing labor conditions, and investing in human development. Governance relates to the responsible and transparent management of institutions, both public and private.

As expectations for corporate accountability continue to rise, regulations mandating the disclosure of ESG-related information are gaining prominence. These rules help investors evaluate the long-term sustainability and ethical standing of their investments, enabling more informed and responsible financial decisions.

IX. GOVERNMENT APPROACH TOWARDS SUSTAINABLE OF FINANCIAL ACTIVITIES IN INDIA

Government of India have taken the various steps for sustainable financing activities in India. Some of the important undertakings have been listed in bellow:

Solar Mission	<ul style="list-style-type: none"> ➤ Achieving 100 GW of solar power by 2022. ➤ Enabling the policy framework for implementation of the mission. ➤ Creating a conducive environment for developing solar manufacturing capability in the country. ➤ Supporting research, development and capacity building activities.
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VIII. IMPORTANCE OF SUSTAINABLE FINANCE

Sustainable finance is essential for aligning financial performance with environmental and social goals. As ESG (Environmental, Social, and Governance) investing becomes more prominent, the traditional approach to investment has evolved. Investors now prioritize ventures that deliver returns while making a positive impact on the planet.

- a) Tackling Climate Change: By directing funds toward low-carbon technologies and sustainable sectors, sustainable finance facilitates the shift to a greener economy and helps reduce climate-related risks.
- b) Managing Environmental Risks: It supports the identification and mitigation of environmental impacts tied to investments. Clear reporting enables businesses and investors to make more informed and responsible decisions.
- c) Encouraging Ethical Governance: This financial approach motivates companies to uphold ethical standards and responsible governance, strengthening their reputation and ensuring long-term resilience.
- d) Meeting Investor Expectations: With growing interest in sustainable investment options, financial institutions can tap into new capital streams and attract a broader investor base by offering ESG-aligned portfolios.
- e) Boosting Transparency and Accountability: Mandating the disclosure of ESG-related data enhances transparency. This allows investors to evaluate the sustainability and ethical integrity of their investments with greater clarity.

	<ul style="list-style-type: none"> ➤ Initial Government efforts were in building a corpus of funds – the National Clean Energy Fund, now known as the National Clean Energy & Environment Fund (NCEEF) – from the proceeds of coal cess (carbon tax on coal). The government-owned IREDA utilises a part of the NCEEF to lend to banks at a 2% interest rate, which is further loaned out for renewable energy projects at a concessional interest rate. In a bid to promote the domestic manufacturing of solar panels, the Indian government in July 2018 imposed a safeguard duty for two years - 25% for the first year, 20% for the next six months, and 15% for the final six months(12).
National Mission on EE (NMEE)	<ul style="list-style-type: none"> ➤ Energy incentives, including reduced taxes on energy-efficient appliances. ➤ Financing a public-private partnership to reduce energy consumption through demand-side management programmes in municipal buildings and the agricultural sector. ➤ NMEEE includes four initiatives: Perform, Achieve and Trade; Energy Efficiency Financing Platform; Market Transformation for Energy Efficiency; and Framework for Energy Efficient Economic Development. ➤ One of the key elements of the NMEEE is the FEEED, which focuses on developing fiscal instruments to promote energy efficiency financing. FEEED is designed to provide comfort to lenders with the provisions of risk guarantee for performance contracts through the Partial Risk Guarantee Fund for Energy Efficiency (PRGFEE) and equity infusion through the Venture Capital Fund for Energy Efficiency (VCFEE). ➤ To operationalize the fund, PRGFEE rules have been notified and presently five financial institutions have been empaneled under PRGFEE: Andhra Bank, Yes Bank, Tata Cleantech Capital Limited (TCCL), IDFC Bank, and IndusInd Bank. These institutions are eligible to get a risk guarantee of up to 50% of the loan amount or INR100 million per project whichever is less (MoP, 2020a)
Green India Mission	<ul style="list-style-type: none"> ➤ In 2018–19, INR1.59 billion has been earmarked for the Green India Mission (GIM) which marks an increase of 48.8% over the previous allocation. GIM has also taken up the World Bank-funded Ecosystems Service Improvement Project (ESIP) which is being implemented in two states: Chhattisgarh and Madhya Pradesh.
Water Mission	Financial assistance of INR5 million to major states and INR3 million to small states/UTs as a grant for the formulation of State Specific Action Plans (SSAPs) for the water sector.
Faster Adoption of Hybrid and Electric Vehicles (FAME)	<p>In the first phase of the scheme 0.28 million hybrid and electric vehicles are supported by way of demand incentive amounting to about INR3,590 million.</p> <p>Phase II of FAME India Scheme for a period of three years began in April 2019 with a total budgetary support of INR100,000 million. From April 2019, the second phase of the FAME II scheme encompasses strict speed, range and energy efficiency requirements, with an outlay of INR 100,000 million.</p> <p>Under the first phase of the FAME scheme, 88 models of electric two-wheelers were eligible for a subsidy</p>
Energy Efficiency Financing Platform (EEFP)	EEFP provides a platform to interact with financial institutions (FIs) and project developers for implementation of energy efficiency projects. It is an awareness-generation and capacity-building platform for various stakeholders. For capacity building of FIs, BEE signed an MoU with the Indian Banks' Association for the Training Programme on Energy Efficiency Financing.
Renewable Purchase Obligations (RPOs)	<p>An economic fiscal and obligatory policy ordains that a certain minimum percentage of power needs to be purchased, by the utilities and some large power consumers, from renewable sources.</p> <p>The Ministry of Power noted the RPO trajectory for solar and non-solar renewable energy until 2021-22. Both RPOs until 2021-22 are set reach 10.5% each, totaling 21%.</p>

Corporate Social Responsibility	CSR programmes being undertaken by several large companies in India suggest that they have started thinking about their impact on the environment and are striving to become responsible corporations. Data analysed by the Ministry of Corporate Affairs (MCA, 2020) for CSR expenditure of all Indian companies in 2014–15 showed that 14% (INR12,130 million) of total CSR spending in India was made on activities focusing on conserving the environment. It was the third highest expenditure on a social impact issue after education (32%) and health (26%) and was greater than the amount spent on rural development (12%). These figures highlight that companies today have an increasingly broad understanding of the risks and opportunities that climate change poses to their strategies and operations and that larger issues of sustainability triggered by climate change are becoming an integral component of dialogues with the major stakeholders.
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Source: <https://cdn.cdp.net/>

X. CONCLUDING REMARKS

Sustainable finance has become a focal point for global investors and policymakers. India has made significant progress in reshaping its financial sector to embrace environmentally responsible practices. The country is steadily advancing toward a financial model that supports environmental sustainability, social welfare, and sound governance. Businesses, as the driving force of the economy, play a crucial role in achieving carbon neutrality by adopting sustainable operations. Support from wealthier nations is essential to help developing countries like India transition to greener economies. Reliable and eco-conscious financing is vital for India's economic growth. Sustainable finance indirectly promotes the development of green products that protect the environment.

This research is important for enhancing social inclusion, stimulating economic development, and preserving natural resources. By encouraging the use of renewable energy in sectors such as agriculture, electric vehicles, solar power, and transportation, it contributes to more efficient resource utilization, better water management, and reduced carbon emissions. The guiding principle behind sustainable finance is rooted in a broader vision—one that promotes ethical values, responsible lifestyles, and positive behaviors. This vision seeks to inspire meaningful transformation driven by a moral commitment to sustainability and collective well-being.

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