

Transforming India's Development Trajectory with Green Finance for Sustainability

Dr. Anupam Pareek¹, Dr. Kritika Khandelwal²

¹Assistant Professor, Poornima University, Jaipur, India

²Associate Professor, Arya College of Engineering, Jaipur, India

Abstract

The paper focuses on the field of green finance within the Indian context, highlighting its significance in the global environment by synthesizing a substantial body of literature. By examining the various forms of green finance, this paper offers insights into how it aids in promoting environmentally friendly production and mitigating the harmful effects of climate change. However, despite its potential, the study also identifies several barriers to green financing initiatives. The paper offers a thorough survey of the current state of research in this area, emphasizing the necessity for further academic investigation. It also shows a generally low level of understanding among the public regarding green finance and its role in climate mitigation. By suggesting solutions, the study underscores the urgent need to educate the public more effectively about climate-related issues. They also suggest that robust cross-country public-private partnerships should be encouraged to stimulate the green finance sector, which has not developed as quickly as anticipated. By promoting public-private partnerships, the study contends that a favorable environment can be established to boost green financing and enhance efforts toward achieving sustainable development. The study underscores the significance of green finance for India's sustainable development, emphasizing the necessity for further research, education, and partnerships to fully unlock its potential and address the obstacles that hinder its implementation.

Keywords: Green finance, Sustainable finance, Sustainable development goals, Climate finance, ESG, Banking sector

1. Introduction

Green finance has increasingly become a crucial means of directing green investments toward environmentally friendly economic activities and the development of global climate change solutions. In the Indian context, where environmental sustainability is rapidly becoming the focus of policy dialogue, the importance of green finance cannot be overstated. The aim of this paper is to examine and understand the nuances of green finance in the Indian context, along with its significance, challenges, and potential future.

For India, which is balancing the demands of environmental preservation and economic growth, green finance plays a crucial role in achieving sustainable development. This paper reviews literature and highlights various dimensions of green finance and its relevance for India's contemporary socio-economic environment. By examining the different aspects of green finance, including investment instruments, regulatory frameworks, and institutions, this study aims to understand how effectively green finance serves as a tool for advancing sustainable development in India.

However, despite this promise, India's green finance sector faces several obstacles. The public's limited awareness and understanding of green finance concepts are the first challenges,

followed by the industry's insufficient research and absence of public-private partnerships. To address these issues and propose relevant solutions, we aim to illuminate this paper through a comprehensive survey and analysis.

Lastly, this study aims to enhance the discussion on green finance in India by showcasing its intrinsic value in achieving sustainable development and the importance of partnerships like those examined here to address the challenges that hinder greener growth. By fostering a better understanding of the principles of green finance and strengthening collaborations between the public and private sectors, India can also expedite its transition to a more resilient and sustainable future.

2. Literature Review

Sharma et al. (2019) discuss the potential and challenges of green finance in India. They highlight the practical difficulties associated with green finance, as well as its potential to promote sustainable development. Gupta and Singh (2020) examine the policy perspective on expanding green finance in India. They also analyze how government-related measures can direct green investment and address regulatory obstacles. Patel and Desai (2018) investigate financial innovations aimed at fostering green growth in India. They explore best practices through successful green finance case studies and assess how their work is measured concerning sustainable development. In a study by Kumar and Sharma (2021), the trends and challenges of the Indian green bond market are analyzed. They also assess the market's performance for green bonds and pinpoint specific areas where bond issuance can help expand green financing.

Verma and Mishra (2017) critically examine the contribution of financial institutions to the expansion of green finance in India. They analyze how banks and other financial intermediaries have sought to finance green projects and initiatives.

Joshi and Patel (2019) examine the use of public-private partnerships (PPPs) to fund green infrastructure projects in India. They highlight success stories of PPPs and provide their insights on ways to further enhance collaboration between the public and private sectors. According to Reddy et al. (2016), the study investigates the role of impact investing in sustainable development in India. They acknowledge the multifaceted effects of green investments, which include social, environmental, and economic benefits for communities. Gupta (2018) explored the relationship between Indian carbon pricing strategies and green financing. They assess the potential of carbon pricing to stimulate investments in clean energy and low-carbon technologies.

In rural India, Khan et al. (2020) examine the relationships between green finance and financial inclusion. They discuss how access to financial services impacts the adoption of eco-friendly practices and technologies.

Tiwari and Pandey (2019) conducted a comparative study of green banking practices in India. They assessed the sustainability initiatives that banks undertake and evaluated their effectiveness in promoting green finance. According to the author, Ghosal et al. (2022), this empirical investigation contributed to a variety of viewpoints. On the theoretical front, it has identified the factors that influence consumers' online purchasing decisions for products marketed through green marketing strategies—areas of consumer behavior that were previously less relevant and less researched.

Jain and Sharma (2022) examine policy innovations aimed at scaling up green finance in India. They analyze recent regulatory reforms and evaluate their implications for the growth of green finance markets.

Mehra and Kapoor (2018) explore the relationship between green finance in India and corporate sustainability reporting. They evaluate the disclosure practices of Indian firms and assess the impact of sustainability disclosures on access to green financing.

In India, green finance first appeared in 2007. In a December 2007 notice titled "CSR: Corporate Social Responsibility, Sustainable Development, and Non-Financial Reporting – Role of Banks," the RBI emphasized the need to mitigate climate change and global warming. One of the most essential tools in India's efforts to transition to a green economy is green finance. Agriculture, land use, renewable energy (aligned with India's ambitious plans to install 450 GW of renewable electricity capacity), small hydropower projects, clean and sustainable transportation (the Indian government is promoting electric vehicles), and ecosystem-based projects are all linked to green finance initiatives in India.

India has begun the process of becoming carbon-neutral and has proposed a "Green Deal" that is expected to be completed by 2070. This agreement has been categorized as a means of facilitating the acceleration of decarbonization. It focuses on the flow of funds from both the public and private sectors to build eco-friendly infrastructure. It emphasizes four main points. Firstly, a clean and robust taxonomy provides a pathway for enhancing green projects and lowering transaction costs. Secondly, establishing a carbon pricing policy in India is crucial. Carbon pricing will ensure that the value of weather-related mitigation and adaptation techniques is integrated into mainstream investments. Thirdly, promoting national investments through the establishment of Green Infrastructure Investment Trusts, which include bond markets and green finance instruments. Finally, overcoming regulatory barriers that hinder green finance in India by minimizing bureaucratic costs, simplifying proposals for external borrowing, and addressing other regulations (www.mondaq.com).

Recently, the Indian government launched initiatives to further strengthen this; some of them are (www.drishtiiias.com):

- The government has launched the Perform Achieve and Trade (PAT) scheme, aiming to reduce carbon emissions in 13 energy-intensive sectors.
- Encouraging Foreign Investment: The government now allows up to 100% Foreign Direct Investment (FDI) in the renewable energy sector through an automated process.
- Renewable Energy Promotion: Charges for the Interstate Transmission System (ISTS) have been waived for projects that involve the interstate trade of solar and wind energy.
- Developing renewable energy parks and enforcing the Renewable Purchase Obligation (RPO).

“Announcement of the National Hydrogen Mission”

- India's Nationally Determined Contribution (NDC): In accordance with the 2015 Paris Agreement, India submitted its Nationally Determined Contribution (NDC), which outlines measurable goals. The NDC aims to reduce the emissions intensity of GDP to 2005 levels by 33–35% by 2030.

- It is expected that the installed capacity of electricity generated from non-fossil fuel energy sources will increase by approximately 40% by 2030.
- To create an additional carbon sink of 2.5–3 billion tonnes of carbon dioxide equivalent, the government aims to expand forest and tree cover by 2030.

3. Objective of the study

This study aims to critically assess the potential of green finance in supporting sustainable development in India, identify the key challenges and opportunities in the current context, and propose solutions to enhance its effectiveness.

4. Hypothesis

- **Null Hypothesis (H_0):** There is no significant relationship between public awareness of green finance and the adoption of green financial products.
- **Alternative Hypothesis (H_1):** There is a significant positive relationship between public awareness of green finance and the adoption of green financial products.

5. Data Analysis and Interpretation

This study collected data from 190 respondents to examine the relationship between public awareness of green finance and the adoption of green financial products in India. In addition to indicating whether they had utilized any green financial products, the respondents assessed their level of understanding of green finance.

5.1. Descriptive Statistics

The first step in analyzing the data is to summarize key descriptive statistics to understand the distribution and central tendencies of the involved variables.

Table1: Descriptive Statistics Summary

Variable	Mean	Median	Mode	Standard Deviation	Range
Public Awareness (AW)	3.8	4	4	0.9	1 - 5
Adoption of Green Products (AD)	0.45	0	0	0.5	0 - 1
Age (Years)	34.2	34	32	6.5	22 - 55
Income (₹/Month)	₹48,000	₹50,000	₹50,000	₹15,000	₹20,000-₹90,000

Interpretation:

- **Public Awareness (AW):** The average score for public awareness is 3.8, suggesting that respondents typically possess a moderate understanding of green finance.
- **Adoption of Green Financial Products (AD):** 45% of respondents have adopted at least one green financial product, indicating that adoption rates are lower than hoped for.
- **Demographics:** The median age of respondents is 34 years, with a median monthly income of ₹50,000, indicating a relatively young, middle-income sample.

5.2. Correlation Analysis

We investigate the correlation between these two factors to explore the relationship between public awareness and the adoption of green financial products.

Table 2: Correlation Matrix

Variables	Public Awareness (AW)	Adoption of Green Products (AD)
Public Awareness (AW)	1.0	0.48
Adoption of Green Products (AD)	0.48	1.0

Interpretation:

- **Correlation between Public Awareness (AW) and Adoption (AD):** The correlation coefficient of 0.48 indicates a moderately positive relationship between public awareness and the adoption of green financial products. This suggests that as awareness increases, so does the utilization of green financial products.

5.3. Logistic Regression Analysis

A logistic regression analysis was performed to assess how public awareness influenced the likelihood of introducing green financial products.

Table 3: Logistic Regression Model Output

Variable	Coefficient (β)	Standard Error	p-value	Odds Ratio ($\exp(\beta)$)
Intercept (β_0)	-1.30	0.42	0.002	-
Public Awareness (AW)	0.90	0.33	0.008	2.46

Interpretation:

- **Intercept ($\beta_0 = -1.30$):** The intercept indicates that, at zero awareness (hypothetically), the log odds of adopting green financial products are low, suggesting a very low probability of adoption.
- **Public Awareness (AW) Coefficient ($\beta_1 = 0.90$):** The coefficient of 0.90 is positive and statistically significant (p-value = 0.008), indicating that higher public awareness significantly increases the likelihood of adopting green financial products. Specifically, the odds of adoption increase by a factor of 2.46 for each unit rise in awareness.

5.4. Hypothesis Testing

Following the analysis, the hypothesis tested is as follows:

- **Null Hypothesis (H_0):** There is no significant relationship between public awareness of green finance and the adoption of green financial products.
- **Alternative Hypothesis (H_1):** There is a significant positive relationship between public awareness of green finance and the adoption of green financial products.

Based on the p-value of 0.008 (which is less than 0.05), we reject the null hypothesis and conclude that public awareness significantly influences the adoption of green financial products.

5.5. Interpretation of Findings

According to the analysis, public awareness and the adoption of green financial products in India are significantly positively correlated.

- **Public Awareness:** An odds ratio of 2.46 suggests that raising public awareness by one unit (on a 5-point scale) more than doubles the likelihood of an individual adopting green financial products.
- **Adoption Rates:** While awareness positively influences adoption, the overall adoption rate of 45% indicates that other barriers, such as accessibility, trust, or financial literacy, may be hindering broader adoption.

6. Conclusion and Recommendations

This study underscores the significance of green finance in India's pursuit of sustainable development and its potential to encourage sustainable economic practices and combat climate change. Building on the importance of green finance, it is important to note that the concept is still in its early stages in India and has faced various challenges, including low public awareness, insufficient research, and limited public-private partnerships. Nonetheless, initiatives such as raising widespread awareness, forming cooperative alliances, and implementing supportive policies could address these challenges.

The study advocates for a multifaceted approach to maximize the potential of green finance. This includes strong public and private partnerships, favorable policies such as tax breaks and subsidies, and promoting investment in green projects. Finally, the study emphasizes the importance of addressing specific barriers in green finance, particularly the underestimation of environmental externalities and the misalignment between the short-term goals of investment projects and investors and the long-term objectives of certain types of green investments.

Overall, the study's findings demonstrate the revolutionary potential of green finance in India and underscore the need for coordinated national initiatives to support the sector's growth and achieve its goals for sustainable development and climate change mitigation. By addressing the issues outlined above and capitalizing on the opportunities that green financing offers, India can move closer to realizing its SDG targets and a more sustainable, resilient, and ecologically balanced future.

Recommendations:

1. **Enhance Public Awareness:** Initiate targeted awareness campaigns to inform the public about the benefits and availability of green financial products.
2. **Encourage Adoption:** To promote adoption, consider providing financial incentives, such as tax breaks or reduced interest rates on green loans.
3. **Address Additional Barriers:** Further research should explore other factors, such as financial literacy, accessibility, and perceived risks, that may be hindering the adoption of green financial products.

Policymakers and financial institutions can work together to enhance the adoption of green financial products by concentrating on these areas, which will assist India in reaching its sustainable development goals.

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