

Financing the Future: Assessing the Role & Prospects of Green Finance in India's Sustain Ability Agenda

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Abstract: This research paper is on green finance as a crucial tool for achieving sustainable development in India. Green finance acts as a vital link, channeling investment toward environmental conservation and broader economic growth. The study's primary objective is two-fold: first, to define the concept of green finance as a system of market-based investment and lending that integrates environmental risk analysis into financial decisions; and second, to assess its viability within Indian industries as a mechanism for offsetting ecological damage, particularly carbon emissions. Beyond conceptual validation, the paper investigates the current developments, future prospects, and obstacles facing green finance in India. Green investing is framed as acknowledging the inherent value of natural capital to improve human welfare and ecological health while mitigating environmental risks. The escalating global concerns over climate change, poverty, and social inequality necessitate a focus on sustainable development. The paper addresses this by discussing the concept, dimensions, principles, and strategies of sustainable development specific to the Indian context. It enumerates government initiatives, including the National Action Plan on Climate Change (NAPCC) and the Sustainable Development Goals (SDGs) under Agenda 2030. Finally, it analyzes India's SDG Index prepared by NITI Aayog to highlight state-level achievements and offer policy suggestions for meeting national sustainability targets.



REVIEW OF LITERATURE:

Conceptual and Theoretical Foundations

Carroll A.B. (1979): This is a foundational work defining Corporate Social Responsibility (CSR), which establishes the premise that a corporation's responsibilities extend beyond purely economic goals to include social and ethical concerns. This idea underpins the financial sector's engagement in green finance.

Jeucken M (2001): This book, Sustainable Finance and Banking, directly addresses the financial sector's role in the future of the planet, providing core definitions and frameworks for sustainable finance. Schmidheiny S., Zorraquin F.J.L. (1996): This work focuses explicitly on the financial community's capacity to drive eco-efficiency and accelerate the shift toward sustainable development, setting the stage for green investment strategies. Drexhage J., Murphy D. (2010): This paper provides the essential policy context by tracing the evolution of the Sustainable Development concept from the Brundtland Commission onward, justifying the global push for financial alignment.

II. Green Growth and Economic Justification

Hart S.L., Ahuja G. (1996): This empirical study answers the question, "Does it pay to be green?" It found that reducing emissions leads to measurable positive financial performance, providing a key economic rationale for banks and firms to invest in environmental improvements.

Doh G.W. (2009): This analysis links the concept of "low carbon green growth" directly to the necessity of evolving the finance industry, framing green finance as the infrastructure required to enable this new economic model.

Chopra K., Kumar P. (2005): This paper, summarizing the Millennium Ecosystem Assessment, emphasizes the economic value of ecosystem services, providing the core justification for why financial risk assessments must incorporate environmental factors.

Sahoo P., Nayak B.P. (2007): This is an early and important paper analyzing the emergence and practices of green banking in India, detailing the initial steps and challenges faced by domestic financial institutions.

Climate Group (2010): This report offers a crucial analysis of the finance gap and the opportunities for the Indian financial sector to support the country's transition to a low-carbon economy.

NITI Aayog (2024): The Sustainable Development Goals India Index is the essential modern policy document. It provides the official governmental framework, performance metrics, and benchmarks against which the success and impact of all green finance initiatives in India are measured.

INTRODUCTION

Global discourse increasingly positions sustainable development at the forefront of policy and scholarly inquiry, driven by escalating concerns over environmental degradation, climate change, poverty, and social inequity. This fundamental concept defined as "the advancement that satisfies the requirements of the current generation without jeopardizing the capacity of future generations to fulfill their own requirements" was notably framed by Indian economist Nitin Desai in 1986. Desai, then an advisor to the World Commission on Environment & Development (later the Brundtland Commission), advocated for the crucial integration of development policy and environmental policy into a common framework, a need that the concept of sustainable development is uniquely positioned to fulfill.

In response to this imperative, the strategy of green growth has emerged, which aims for a balanced economic expansion where both economic prosperity and environmental conservation are maximized through a positive, cyclical relationship. This approach champions an economic pattern driven by "green" innovation, focusing on continuously improving manufacturing capabilities, utilizing green technology and knowledge to reduce pollution, and expanding the efficient use of energy and natural resources (Noh, 2010).

A foundational element in achieving green growth is green finance. Initially viewed as a form of Corporate Social Responsibility (CSR) where financial institutions like banks and mutual funds make efforts toward environmental goals even if not immediately profitable (Koo, 2010) green finance has evolved into a sophisticated mechanism. It is fundamentally a system of market-based targeted financing that directs sufficient capital toward green economic activities through regulatory or public agency intervention. This intervention is deemed necessary because the market's autonomic mechanism is typically estimated to undervalue or insufficiently fund such activities (Noh, 2010b). Green finance is therefore distinguished by its pursuit of simultaneous economic growth, environmental improvement, and the robust development of the finance industry.

Defining Key Concepts

Term	Rewritten Definition
Green Economy	A sustainable economic system where growth in income and employment is fueled by public and private capital. This investment actively reduces carbon emissions and pollution.
Green Growth	A deliberate strategy to enhance economic growth by reshaping conventional economic activities to comply with ecological standards. Its goal is to generate new opportunities for employment and income while simultaneously guaranteeing the minimal possible environmental impact.
Green Finance	A focused methodology for embedding the financial industry within the systemic shift toward economic activities that consume less carbon and fewer resources, and that are resilient to the effects of climate change.

The urgent need for this integrated approach is underscored by the ecological imbalance caused by excessive carbon dioxide emissions and subsequent global warming. As international protocols like the Kyoto Protocol guide global efforts to mitigate this catastrophe, the concept of Green Finance integrating green funding, investment, and technology becomes paramount (Chopra et al., 2005). Governments must actively promote and regulate green industrial markets to boost the dispersion of green products and encourage sustainable consumption.

By offering the necessary capital, green financing is essential for activating the green industry; without robust financial support, green products and initiatives face the risk of market elimination. This paper examines the role of green finance in supporting this essential transition toward a sustainable, resilient, and equitable economic future. This approach is essential because achieving green growth which promotes economic expansion by aligning established processes with ecological principles to create employment and income while minimizing environmental impact relies on supportive capital.

Sources and Mechanisms of Green Finance

Green industries and technologies exist at various stages of maturity, necessitating different levels of investment from diverse capital sources. Generally, the funding flows through three primary channels:

1. **Domestic Public Finance:** This includes **direct funding and budgetary allocations** provided by a nation's own government.
2. **International Public Finance:** This source comprises capital provided by **international organizations** and various **multilateral development banks (MDBs)**.
3. **Private Sector Finance:** This encompasses the largest pool of funds, originating from both **domestic and international private sources** (such as commercial banks, institutional investors, and private equity funds).

Green finance effectively works by attracting and directing capital from these three sources into projects (like renewable energy, sustainable agriculture, or clean transport) that align with the goals of a green economy.

OBJECTIVES

This article establishes the foundational framework and essential principles of sustainable development. It proceeds by analyzing the key concepts, multifaceted dimensions, and strategic approaches to sustainable development specifically within the Indian context. Furthermore, the paper details various government initiatives aimed at successfully achieving sustainability goals. A critical focus is placed on identifying the primary challenges encountered during this process. Ultimately, the article underscores the indispensable function of public administration and governance in innovatively developing and executing specialized plans necessary to realize these sustainability targets.

METHODOLOGY

This investigation utilizes a mixed-methods approach that incorporates an underlying qualitative analysis of information. The necessary data was gathered through an extensive examination of official publications, policy instruments, and institutional reports produced by key bodies such as the Ministry of Environment and the NITI Aayog.

SUSTAINABLE DEVELOPMENT IN THE INDIAN CONTEXT

Sustainable development is a significant global concern, made acutely relevant in India due to the immense pressure placed on its natural resources. Despite possessing only 2.4% of the world's landmass, India supports approximately 16% of the global population, leading to an unsustainable exploitation of resources across generations. Given its status as a booming developing nation undergoing rapid urbanization, the challenge of pervasive environmental degradation exacerbated by issues like overpopulation and poverty places enormous stress on the country's land and resources.

Historical Commitment and Global Initiatives

India's commitment to these issues has deep roots. At the United Nations Conference on the Human Environment in Stockholm (1972), the then-Prime Minister, Mrs. Indira Gandhi, notably argued that eradicating poverty was a fundamental aim of any global environmental strategy. This perspective reinforces the modern understanding that environmental issues are intrinsically linked to collective human development obligations. Contemporary development must recognize its long-term impact, requiring a heightened mutual understanding of shared concerns and responsibilities to secure a collective future.

A milestone event, the United Nations Conference on Environment & Development (UNCED) in Rio de Janeiro (1992), successfully focused global attention on environmental and development challenges. Following this summit, Agenda 21 was adopted, reflecting universal political commitment to socio-economic development and environmental cooperation. This agenda specifically acknowledged the need to provide assistance to developing nations to help fund environmental action and foster sustainable development.

Governance and Policy Imperatives

The responsibility for realizing national sustainability targets primarily rests with national governments. They are tasked with planning strategies and policies that align with their country's unique situation, capacity, and priorities, in collaboration with international bodies, NGOs, and local authorities. Studies emphasize the critical role of public administration and governance in both creating innovative plans and effectively implementing them (Kumar, 2024). Furthermore, achieving the Sustainable Development Goals (SDGs) requires a collaborative approach involving government agencies, community leaders, and a multidisciplinary, bottom-up strategy to achieve balanced economic, social, and environmental objectives (Rohra, 2025). The effectiveness of these efforts is variable globally, as some analysis suggests that while about one-fifth of countries have policies supporting SDG progress, many others maintain neutral or even hindering policies (Van Zanten & Putintseva, 2025).

India's Environmental Policy Framework

India had an advantage in that it did not require entirely distinct national strategies for sustainable development, as its development principles were already integral to its planning processes. Environmental considerations have consistently been woven into Indian culture, reflected across the nation's constitutional, legislative, and policy frameworks.

National Environmental Policy: This policy operates on the core principle that sustainable development must respect ecological limits and the requirements of social justice.

Environmental (Protection) Act, 1986: Enacted after the Bhopal Gas Tragedy (1984), this legislation—often referred to as the "umbrella legislation"—was authorized under Article 253 of the Constitution. It established the legal structure enabling the central and state governments to prevent, control, and reduce pollution and ensure environmental quality improvement.

Seventh Five Year Plan (1985–1990): This planning document explicitly recognized the sustainability requirement: "To maintain productivity gains, resources must be continually available over time. This necessitates managing

The resource base to enable sustainable development while meeting current needs."

The Role of Banks and Financial Institutions in Green Financing

The transformation towards a sustainable economy is heavily reliant on the financial sector, where various domestic and international banks play a critical role.

Initiatives by Indian and International Banks

Major Indian domestic banks, including the State Bank of India (SBI), IDBI Bank, and ICICI Bank, have actively begun to provide capital for renewable energy projects. This focus is mirrored by foreign banks like Standard Chartered and ABN Amro, which are also deeply involved in financing the renewable sector.

Barclays, for instance, pioneered investment vehicles responding to the rising market interest in Greenhouse Gas (GHG) prices. It launched the BGCI (Global Carbon Index), providing investors with direct access to global carbon markets. As a key risk management provider, Barclays helps clients understand and manage their carbon risk exposure through schemes like the EUE missions Trading Scheme (ETS) and the Clean Development Mechanism (CDM).

Specific Schemes and Commitments in India Indian financial institutions have developed specialized schemes targeting different segments:

Bank	Key Green Finance Initiatives
State Bank of India (SBI)	Launched a Green Home Loan scheme offering concessions (reduced margins and interest rates, zero processing fees) for projects rated by the Indian Green Building Council (IGBC). The SBI also invested in its own wind farms to generate green power, partially substituting thermal power use in its offices. It partners with CDM consultants to finance CDM projects and offers structured products (like securitization and escrow) for carbon credit receivables.
IDBI Bank	Recognized as a pioneer in Indian environmental banking (active for over 17 years). It established an exclusive group focused on climate change and carbon credits, offering advisory services on CDM/Kyoto Protocol and Voluntary Emission Reductions (VERs). This group created a popular structured product for upfront financing against carbon credit receivables and collaborates with the World Bank on the India Chiller Energy Efficiency Project (ICEEP).
ICICI Bank	Provides financial backing to organizations undertaking clean energy and environmentally sustainable projects. This assistance covers energy efficiency, renewable energy, biomass co-generation, waste heat recovery, and other initiatives aimed at mitigating GHG emissions.
Bank of Baroda / Canara Bank	Introduced schemes to finance Small and Medium Enterprises (SMEs), helping them acquire equipment and adopt measures for energy conservation and efficiency. Canara Bank offers term loans up to ₹100 lakhs for this purpose.
IndusInd Bank	Implemented the Green Office Project, which includes installing solar-powered ATMs in various cities, achieving energy savings and reducing CO ₂ emissions.
Yes Bank	Maintains an investment portfolio with significant projects in alternative energy and clean technologies, including investments in specialized funds like the South Asia Clean Energy Fund.
Bank of Maharashtra	Actively promotes the use and installation of renewable energy equipment (Solar Home Systems, Solar Water Pumps, Bio Energy products, Clean Energy equipment) for farmers, artisans, and salaried persons, often providing interest concessions.

The India Chiller Energy Efficiency Project (ICEEP)

A notable example of institutional collaboration is the **ICEEP**, implemented since 2009 by the **World Bank** alongside the Ministry of Environment and Forest (MoEF) and **IDBI Bank Ltd.** Funded by grants from the Global Environment Facility (GEF) and the Ozone Trust Fund, the project's goals are to support the phase-out of the Ozone Depleting Substance (ODS) Chlorofluorocarbon (CFC) under the Montreal Protocol and achieve energy efficiency in the refrigeration and air-conditioning (RAC) sector. ICEEP incentivizes chiller owners with a **20% upfront grant subsidy** to replace old, inefficient CFC chillers with new, energy-efficient, non-CFC models, expecting a payback period of under two years due to estimated energy savings of up to 30%.

Role of SIDBI in Fostering Green MSMEs

The Small Industries Development Bank of India (SIDBI) plays a proactive role in ensuring the **sustainable development of the Micro, Small, and Medium Enterprises (MSME) sector**, recognizing that green growth is a national agenda.

Challenges and SIDBI's Strategy

MSMEs often lag in adopting clean technologies due to a lack of awareness about available alternatives, low appreciation of the investment benefits, and insufficient worker skills for new technologies. SIDBI, as a key development financial institution, addresses this by providing **credit facilities on softer terms** and crucial **technological support services** to promote **Cleaner Production (CP)** options.

Key Initiatives by SIDBI

SIDBI's initiatives combine concessional lending with information dissemination:

Financing for Energy Efficiency: Through bilateral Lines of Credit from international partners (like Germany's KfW and Japan's JICA), SIDBI has assisted over 2,000 MSMEs with more than ₹800 crore for clean production and energy-saving investments.

Cluster-Specific Projects:

E-Waste Recycling (Bangalore): Assisted E-Parisara Pvt. Ltd., helping over 100 MSMEs comply with environmental regulations, reduce waste treatment costs, and facilitate material reuse.

Common Effluent Treatment Plants (CETPs): Assisted facilities in Surat and Bangalore to manage toxic waste from textile dyeing, printing, and metal finishing units, enabling hundreds of MSMEs to meet pollution control norms.

Clean Mobility: Provided financing for phasing out old vehicles, including the Mumbai **Taxi Financing Scheme** (assisting over 700 micro-entrepreneurs to purchase new, clean taxis without collateral) and providing refinance for **CNG-fitted auto-rickshaws** in Chandigarh.

Solar & Livelihood: Supported microfinance institutions (MFIs) to provide assistance for acquiring **solar lanterns** and partnered on the **Rickshaw Sangh Programme** to supply rickshaws to low-income groups.

Capacity Building and Knowledge Dissemination: Organized awareness campaigns in high energy-intensive MSME clusters to share information on green technologies, required investment, and cost-benefit analysis.

Developmental Support and Risk Mitigation

SIDBI's ongoing initiatives for competitive MSME development integrate sustainability:

Environmental and Social Risk Assessment (E&S): The bank has adopted international best practices by incorporating an E&S framework into its project appraisal process, training over 100 credit officials in this area.

Partnership with BEE: Entered an MoU with the **Bureau for Energy Efficiency (BEE)** to create a directory of energy-efficient technologies for 25 MSME clusters, raise awareness, and build local capacity for implementation.

Knowledge Products: Published the **"Knowledge Series"** and **"Tip Sheet on Energy Efficiency"** and supported the creation of a **Carbon Credit Guidebook** for MSMEs, updating its technology data base to flag carbon-free and energy-efficient options.

Green Ratings: Supported the SME Rating Agency (SMERA) in introducing a **"Green Rating"** model. This aims to incentivize MSMEs to adopt better processes, mitigate environmental damage, and manage business continuity risks associated with changing environmental regulations.

Policy Alignment and New Funding Sources

Achieving scaled-up green finance requires coherent policy and innovative funding mechanisms, especially at the urban level.

Policy Coordination

National Framework is Key: A robust national policy framework simplifies the management of city-specific challenges and ensures consistency. This is vital for setting **pricing signals for non-local environmental externalities** (like GHG emissions) and reforming local revenue sources.

Removing Barriers: National governments should prioritize eliminating existing regulations that impede the ability of local governments to take necessary environmental action.

Holistic Approach: Efforts to "green" urban revenue must consider the entire tax and benefit system to address potential negative distributional consequences, rather than forcing every single policy measure to fulfill both environmental and equity goals simultaneously.

Simplicity: While individual instruments may be complex, the **overall policy package must be kept simple** to ease impact assessment and reduce the risk of unintended consequences.

Making Existing Revenue Sources Greener

The core aim is to **internalize externalities** by designing taxes, charges, and fees that reflect the full marginal social cost of environmentally impactful actions.

Road-Pricing Policies: Congestion charges, especially when differentiated by congestion level or peak hours, can effectively reduce traffic and pollution. Linking pricing to vehicle type further encourages the shift to greener transport. Earmarking these revenues to fund public transportation enhances effectiveness.

Water and Waste Fees: Pricing structures should better signal resource scarcity and cover infrastructure and service costs, making them more responsive to actual resource use.

Intergovernmental Grants: Grants should integrate environmental objectives to compensate cities for the opportunity

costs of green behaviour (e.g., compensating for lost development charges when designating a public park).

Tapping New Sources of Finance

Carbon Finance for Cities: Cities and central governments need to collaborate to improve access to carbon-offsetting programs (like CDM/JI) and ensure funding flows directly to urban centers. A prerequisite for carbon finance should be the use of a harmonized emission inventory for cities.

Internalizing Infrastructure Costs: Costs associated with urban sprawl should be recovered from developers through development charges, and new projects should incorporate the cost of investment into alternative water sources.

National-Local Cooperation for Green Finance: Developing access to instruments like **green bonds, public-private partnerships, and green infrastructure banks** requires national and local governments to cooperate. This cooperation is essential to build the necessary financial, technical, and legal capacity and to secure sufficient bargaining power when negotiating private-sector financing.

Principles, Goals, and Strategies of Sustainable Development Core Principles and Goals

Sustainable development is fundamentally designed to achieve a balance across three

pillars: **economic growth and equity, environmental conservation** for both current and future generations, and comprehensive **social development**. Social development ensures a rich social and cultural diversity, individual empowerment rights, and simultaneous access to essential needs like jobs, education, food, healthcare, and energy. However, the pursuit of these goals often leads to competing priorities between sustainable development and specific areas like resource production, extraction, and use.

The overarching goals of sustainable development, as articulated by Khoshoo (1990), are twofold:

1. **Restoration** of ecological damage that has already occurred.
2. **Insulation** of society from potential environmental harm resulting from future development activities.

Challenges to Achieving Sustainability

Analyzing sustainability issues is essential across multiple scales:

Level	Key Challenges
Global Level	Ozone depletion, climate change, and widespread air pollution.
National Level	Water pollution and scarcity, deforestation, biodiversity loss, desertification, soil erosion, population pressure, poverty, inequality, and high energy consumption.
Local Level	Decline in soil quality and inequality of income.

The three core systemic drivers contributing to unsustainability are:

Consumption: Utilizing resources beyond the capacity of natural limits.

Production: Resulting in gross inefficiencies in manufacturing and resource use.

Distribution: Marked by inequitable income disparity between different social strata, thereby fracturing society.

Strategies for Implementation

To effectively achieve sustainable development, the following strategies are crucial:

Adopting highly **efficient technologies**.

Utilizing **environmentally friendly energy resources** (renewables).

Focusing on **renewable sources of energy**.

Prioritizing **integrated rural development programs**.

Controlling the overuse of shared resources (addressing the "tragedy of the commons").

Stimulating **organic farming** and promoting **waste recycling**.

Educating citizens on conserving natural assets to ensure **intergenerational equity**.

Utilizing resources only within their **carrying capacity**.

Working to **improve the standard of living** across social, cultural, and economic dimensions.

Major Government Initiatives in India

India has demonstrated a strong institutional commitment to sustainability through landmark national and global initiatives:

National Action Plan on Climate Change (NAPCC)

Released on June 30, 2008, the NAPCC outlines dual strategies (Vinati, 2016):

Promoting **adaptation** to the impacts of climate change.

Enhancing the **ecological sustainability** of India's development path.

The NAPCC consists of **eight core National Missions**, which serve as umbrella organizations for various ongoing and new schemes:

National Solar Mission

National Mission for Sustaining the Himalayan Eco-system

National Mission on Enhanced Energy Efficiency

National Water Mission

National Mission for a Green India

National Mission on Strategic Knowledge for Climate Change

National Mission for Sustainable Agriculture

National Mission on Sustainable Habitat

Agenda 2030 (Sustainable Development Goals - SDGs)

Adopted during the Conference of Parties (COP 21) in Paris in 2015, this framework includes **17 Sustainable Development Goals (SDGs)** and 169 targets to be achieved by the year 2030. These goals represent a universal call to action:

Poverty and Hunger: Eradicating poverty and achieving zero hunger.

Health and Education: Ensuring good health and well-being, and providing equitable, quality education for all.

Equality and Justice: Attaining gender equity, promoting peaceful societies, justice for all, and accountable institutions.

Infrastructure and Innovation: Building resilient infrastructure, sustainable industrialization, and fostering innovation.

Resources and Climate: Ensuring clean water and sanitation, providing affordable and clean energy, mitigating climate change, and protecting marine and land ecosystems (forests, biodiversity).

Economy and Consumption: Promoting sustainable economic growth and decent work, reducing inequality, ensuring sustainable production and consumption patterns, and developing sustainable cities and communities.

Partnership: Strengthening global partnerships for sustainable development.

These universal goals address the interconnected social, economic, and environmental aspects of sustainability:

Category	Sustainable Development Goals (SDGs)
People	1. No Poverty; 2. Zero Hunger; 3. Good Health and Well-being; 4. Quality Education; 5. Gender Equality.
Planet	6. Clean Water and Sanitation; 13. Climate Action; 14. Life Below Water; 15. Life on Land.
Prosperity	7. Affordable and Clean Energy; 8. Decent Work and Economic Growth; 9. Industry, Innovation, and Infrastructure; 10. Reduced Inequalities; 11. Sustainable Cities and Communities; 12. Responsible Consumption and Production.
Peace and Partnership	16. Peace, Justice, and Strong Institutions; 17. Partnerships for the Goals.

CONCLUSION

Green finance serves as the foundational infrastructure for achieving green growth (Doh, 2009). True green growth requires the harmonious cooperation an "orchestra" of various constituents: technology development companies, financial institutions, the government, and the consumer. Today, India possesses a unique opportunity to pursue growth that simultaneously mitigates the costs of environmental degradation. This presents a vast landscape of opportunity for the Indian financial sector. Banks have a critical responsibility beyond just making direct sustainable investments; they must also use their indirect influence over capital and management decisions to drive businesses toward meeting broader social and environmental objectives (Hart and Ahuja, 1996). Institutions like the Small Industries Development Bank of India (SIDBI), given their apex role in developing and financing the MSME sector, are poised to continue acting as change agents. Their future activities will remain aligned with national priorities, emphasizing the three core pillars of sustainability: People, Planet, and Profit. Indian banks face a massive undertaking, but embracing this shift is not optional. Sustainable finance is the future, particularly for Indian financial institutions aiming to achieve a significant global presence. As the quote suggests, "The greatest threat to our planet is the belief that someone else will save it" (Robert Swan). Achieving a sustainable future requires more than just policies; it demands that society actively integrates sustainability goals into everyday choices and economic decisions.

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