

Original Research Article

The Role of Green Finance in Promoting Sustainable Business Practices in India: A Conceptual framework

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Received: 10 September, 2026 | Accepted: 24 September, 2026 | Published: 5 October, 2026

Abstract

Green finance has emerged as a critical mechanism for aligning capital allocation with environmental sustainability goals in India. This study examines how instruments such as green bonds, green loans, sustainability-linked finance, and related regulatory frameworks enable Indian businesses to adopt sustainable practices. This study also indicates that small-scale business organizations face limitations in accessing and benefiting from green finance due to inadequate awareness of the available regulatory frameworks, financial instruments, and related opportunities. The awareness of green finance has not yet reached the desired level within the business environment, which limits its effective adoption among small businesses.

Keywords: Green finance, sustainable business practices, conceptual framework.

Introduction

Although the development of green finance in India gained significant momentum around 2017, its foundation can be traced back to earlier policy initiatives, particularly the National Action Plan on Climate Change (NAPCC) introduced in 2008 and the inclusion of renewable energy under Priority Sector Lending (PSL) in 2015. The NAPCC was formulated to address climate change while promoting sustainable economic development in India. It

comprised eight national missions focusing on areas such as solar energy, energy efficiency, sustainable habitat, water conservation, sustainable agriculture, and climate-related knowledge. Subsequently, in 2015, the Reserve Bank of India included renewable energy as a separate category under Priority Sector Lending, facilitating the flow of institutional credit towards renewable-energy projects. These initiatives provided an important foundation for the subsequent development of green finance in India, including the growth of green debt securities and other sustainable financing mechanisms.

Green finance has emerged as a critical component of the contemporary financial system. In recognition of its growing importance, India has undertaken various initiatives to strengthen financial stability while promoting sustainable and inclusive economic growth. The ESG framework has been made mandatory for green finance by two authorities: the Securities and Exchange Board of India and the Reserve Bank of India. As a result, top listed companies in the country are required to provide their green finance practices through Business Responsibility and Sustainability Reporting (BRSR).

Following are the regulatory framework for green finance-

Business Responsibility and Sustainability Reporting (BRSR)-

Business Responsibility and Sustainability Reporting is an important framework introduced by the Securities and Exchange Board of India (SEBI). Under this framework, top listed companies are required to release relevant non-financial ESG (Environmental, Social, and Governance) information. This reporting standards has brought transparency, accountability, and sustainability in corporate practices.

Green Bonds-

Green bonds are fixed-income financial instruments issued to finance projects that contribute to environmental protection, climate conservation, and sustainable development. They provide investors with a regular return in the form of interest while directing funds towards environmentally responsible business projects. Thus, green bonds not only provide financial benefits to investors but also encourage businesses to adopt sustainable and environmentally responsible business practices.

Following are the green bonds-

- 1) Sovereign green bonds are debt instruments issued by the national government to raise funds for environmentally sustainable public projects. The funds raised through these bonds can be directed towards green infrastructure, renewable energy, clean transportation, and other projects that support environmental sustainability. In this way, sovereign green bonds help the government mobilize investment for green development while providing investors with a fixed-income investment opportunity.
- 2) Corporate green bonds are issued by private companies to raise funds from the public. These funds are used for clean energy projects and to start or improve sustainable business operations. In this way, corporate green bonds help companies adopt sustainable business practices while raising the required capital for their green projects.
- 3) Municipal green bonds are issued by local city governments or municipal agencies for eco-friendly urban projects. These bonds help to raise funds for sustainable development in cities, such as clean water, waste management, renewable energy, and other green infrastructure projects. They are useful for making urban development more sustainable and environmentally friendly.

Green loans-

Green loans- are an important part of green finance that promote environmentally sustainable activities. In India,

financial regulatory institutions such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have taken various initiatives to encourage green financing. A green loan is a type of loan provided specifically to finance environment-friendly projects and activities, such as renewable energy, energy efficiency, clean transportation, and other sustainable development projects.

Challenges Faced by Businesses in Accessing and Utilizing Green Finance for Sustainable Development.

Challenges:

Businesses increasingly recognize the importance of environmentally responsible operations, but obtaining and effectively using green finance remains challenging.

The major challenges include:

Limited awareness and understanding-

Many businesses, particularly small and medium-sized enterprises (SMEs), have limited knowledge about available green financing schemes, eligibility requirements, and application procedures.

Strict eligibility requirements

Financial institutions may require detailed information about the environmental impact, technical feasibility, financial viability, and sustainability outcomes of a proposed project. Meeting these requirements can be difficult for smaller businesses.

Higher initial investment requirements

Sustainable technologies, renewable energy systems, energy-efficient equipment, and environmentally friendly production processes often require substantial initial investment. Businesses may hesitate to undertake such investments when the immediate financial returns are uncertain.

Difficulty in demonstrating environmental benefits

Businesses may struggle to quantify and communicate the environmental outcomes of their projects. Measuring indicators such as carbon reduction, energy savings, waste reduction, and resource efficiency requires appropriate expertise and monitoring systems.

Complex documentation and compliance

Green financing may involve additional documentation, reporting, certification, and monitoring requirements. These procedures can increase the administrative burden, especially for businesses with limited financial and technical resources.

Limited access for SMEs

Large organizations may have better financial resources and technical expertise to access green finance, whereas SMEs may face difficulties because of limited collateral, inadequate credit history, and restricted access to specialized financial advisory services.

Lack of specialized expertise

Developing a bankable green project requires knowledge of finance as well as environmental and technical aspects. Businesses may not have professionals capable of preparing suitable proposals and assessing sustainability-related

requirements.

Uncertainty about long-term returns

Some sustainable investments require several years before their financial benefits become visible. Uncertainty regarding technology, market conditions, government policies, and future costs can discourage businesses from seeking green finance.

Need for stronger coordination and support

Better coordination among financial institutions, government agencies, businesses, and sustainability experts is required to make green finance more accessible and easier to implement.

Review of Literature-

Keerthi B.S (2013)- The study explore the emerging trends, opportunities, and challenges associated with green finance in India. The findings highlighted the significances role of green finance in promoting energy efficiency, environmental sustainability and creation of green employment opportunities. The study further emphasized the strong government support, effective intergovernmental coordination and innovative financing mechanism in promoting sustainable urban development and economic growth.

Soundarrajan and Vivek (2016)- scrutinized the role of green finance in promoting sustainable green economic growth in India. The study has shown the integrated approach of green finance towards financial activities with environmental protection and economic development. It highlighted the opportunities, challenges, and future prospects of green finance in India, stressing its role in reducing environmental risks, preserving natural resources, and promoting society's welfare. The research has concluded that green finance is an imperative for attaining economic growth and aligning environmental conservation with industrial development.

Mingbo Zhenga, Limin Wua, Gen-Fu Fengb and Chun-Ping Chang (2023)- investigated the impact of green finance on national ESG (Environmental, Social, and Governance) performance using data from 103 countries between 2000 and 2020. The study revealed that the green finance has made positive impact on ESG by encouraging green technology and sustainable development. The researcher have found that green finance significantly enhances ESG performance by promoting green technology and sustainable development goals.

Rani and Seema (2025)- examined the role of green finance in promoting sustainable development in India. The study found that green finance and sustainable investing are essential for achieving climate goals and supporting economic growth. It concluded that stronger policies, effective regulations, and increased investment are necessary to strengthen India's green finance ecosystem and ensure long-term sustainability.

Many studies have been undertaken on different aspects of green finance and sustainable development with different parameter, but no study has completely focused on the role of green finance in promoting sustainable business practices in India, hence the present study is undertaken to shed light on the role of green finance in promoting sustainable business practices.

Objectives of the Study

1. To understand the conceptual framework of green finance towards sustainable business practices.
2. To study the major sources, models and instruments of green finance available to businesses.
3. To identify the challenges faced by businesses in accessing and utilising green finance for sustainable development.

Methodology

Research Design:

The study has followed qualitative and exploratory research design aimed at developing an original theoretical framework on the role of green finance in sustainable business in India. As the study is exploratory and qualitative in nature it emphasizes on constructing rational relationships among policy, financial instruments, and firm-level outcomes rather than hypothesis testing or statistical analysis.

Sources of Data:

The study relies entirely on secondary sources. The sources include various official policies and regulatory documents of Government of India. The Reserve Bank of India, and the Securities and Exchange Board of India have published reports on green and sustainable finance flows in India in addition to this green bond, sustainable debt issuances also been considered for the present study.

Conclusion of the Study

Green finance plays a pivotal enabling role in the transition of Indian businesses toward sustainability. By lowering the cost of capital for environmentally aligned activities, embedding performance incentives, improving risk management, and signalling commitment, it helps firms integrate sustainability into core strategy rather than treating it as a peripheral compliance exercise. The conceptual framework presented here illustrates the multi-layered interactions among policy, instruments, transmission channels, and firm-level outcomes.

For India, realising the full potential of green finance requires continued strengthening of the enabling environment, deepening of domestic capital markets, and greater participation of institutional investors. When effectively deployed, green finance can accelerate the shift to a low-carbon, resource-efficient, and resilient economy while supporting business competitiveness and long-term value creation.

Suggestions of the Study:

1. Simplify green finance procedures for easy access by businesses.
2. Increase awareness about available green financing options.
3. Provide technical guidance for preparing green project proposals.
4. Offer incentives and subsidies to encourage sustainable investments.
5. Reduce documentation requirements for small businesses and SMEs.
6. Improve transparency in green finance schemes and eligibility criteria.
7. Promote training programs on sustainable business practices.
8. Strengthen monitoring and reporting of environmental outcomes.

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[SEBI | Framework for Environment, Social and Governance \(ESG\) Debt Securities \(other than green debt securities\)](#)
[Reserve Bank of India](#)