STAR
Research Journal

Available online at www.starresearchjournal.com (Star International Journal)
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GREEN FINANCE THROUGH TRANSFORMATIVE FINANCIAL INSTRUMENTS IN INDIA: A STUDY OF GREEN BONDS AND SUSTAINABILITY-LINKED FINANCING

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Abstract

Green financing is one of the most notable tools in the development of sustainable development and ensuring climate resilience throughout developing economies. India is a rapidly developing nation and one of the toughest two challenges in front of India right now is how to achieve economic growth without compromising the environment. The past few years have seen a growing focus on transformative financial instruments like green bonds, sovereign green bonds, sustainability-linked bonds and ESG financing in India. This study reviews the importance of the transformative green financial instruments in India and its impact on attaining sustainable economic development. This study has descriptive and analytical research design where the secondary data is being gathered from Government Reports, Journal Papers, Climate Bond Initiative Reports and the publications of the SEBI. The results illustrates the contribution of Green Finance (GF) instruments towards renewable energy development and climate finance in India. There are many challenges to developing the GF ecosystem, including the problem of greenwashing, non-uniform green taxonomy, limited awareness, and regulatory problems. The study recommends effective implementation of Policy and disclosures on ESG to increase GF in India, and better institutional support to both GF and the adoption of GF.

Keywords: *Green Finance, Green Bonds, ESG Financing, Sustainability-Linked Bonds*

1. Introduction

The issue of climate change, environmental degradation, and increasing carbon emissions are now on the global agenda and major concerns for the policy makers and financial institutions. Rapid industrialisation, urbanisation and population increases create increased vulnerability of developing economies like India to the negative effects of environmental imbalance. Thus, sustainable development has emerged as a key policy goal of national economic development. In this context, GF has proven to be a key financial tool to unlock finance for environmentally sustainable and climate resilient projects.

GF means financial products and investments which are used for promoting environmental protection, renewable energy, environmental pollution prevention, protection of biodiversity and climate adaptation measures. The traditional financing apparatus is slowly drawing in innovative and transformative financial instruments which integrate environmental, social and governance (ESG) with investment decisions. However, these tools have gained particular significance in recent years, such as green bonds, sovereign green bonds, sustainability linked bonds, climate bonds and ESG linked financing.

In the last decade, the area of 'GF' has made a great strides in India. In India, the first green bond was issued in 2015 and now the market in terms of sustainable debt instruments has grown significantly. Sovereign green bonds, also introduced by the Government of India, are bonds that can be used to finance climate-related infrastructure investments and renewable energy.

Growing use of GF instruments reflects Indian's drive towards Sustainable Development Goals (SDGs) and minimization of the carbon intensity of the economy. Green financing is one of the significant drivers for the renewable energy, electric mobility and sustainable transportation, waste management, water utilities and energy efficient infrastructure sectors.

Objective: To examine how digital and innovative green financial instruments promote sustainable development, climate resilience, and green investments in India.

2. Literature Review

With the concern and the awareness of climate change and the sustainable use of the environment, GF has gained importance in the field of research. The topic of green financial instruments and their contribution to sustainable development and climate resilient growth has received a broad array of study and policy attention by researchers and policy makers alike.

Kumar and Sharma (2022) reported that Green bonds can be a valuable instrument to funding the renewable energy and sustainable infrastructure projects in India. The study emphasized that green bonds are attractive for individual investors who value environmental considerations, and that green bonds serve to enhance access to climate financing.

In India, a huge increase in sustainable public debt transactions was observed from 2020 to 2024, especially in the transportation and renewable energy sectors (Climate Bonds Initiative, 2025).

According to the Department of Economic Affairs (2022), green bonds are issued with a specific environmental objective to fund environmentally friendly public projects, such as the clean and green transportation sector. Chauhan (2025) added that green bonds serve as an important tool for bolstering the low carbon transition and curbing carbon emissions in India.

Evidence on sustainability-linked bonds and environmental, social and governance financing suggests that companies voluntarily adopt measures to enhance their environmental behaviour and their sustainability paths with the issuance of such bonds. Research in the areas of sustainability-linked bonds and environmental, social and governance financing also suggests that companies make voluntary efforts to adapt their environmental behaviour and to pursue sustainability paths when issuing such bonds. Researchers have also discovered issues like lack of transparency in ESG metrics, greenwashing, insufficient regulatory oversight, and unsustainable reporting practices that impact investor trust and market credibility.

Research Gap

Although previous studies have examined green finance and sustainable investments, limited research has focused on the integration of digital technologies with innovative green financial instruments in the Indian context. Existing literature largely overlooks the role of climate fintech platforms, digital green bonds, and technology-driven transparency mechanisms in enhancing green finance adoption.

Furthermore, insufficient attention has been given to challenges such as greenwashing, regulatory uncertainty, and investor awareness affecting their effectiveness.

3. Research Methodology

For the present study a descriptive and analytical research design is considered appropriate to highlight the role of transformative green financial instruments in India. All data for the research have been obtained from the secondary sources of data from authentic and reliable publications namely academic journals, government publications, SEBI publications, RBI publications, Climate Bonds Initiative reports and institutional research papers.

The study aims to analyse the types of bonds available for green financing, namely: green bonds, sovereign green bonds, sustainability linked bonds, and ESG financing instruments in the Indian financial system. Peer-reviewed literature from 2020–2025 has been reviewed to comprehend the nature of development, growth and policy efforts in GF in India over the past few years.

Data collected from this have been analysed using comparative and thematic approach which has identified trends on sustainable investment growth, climate financing, institutional participation and regulatory changes. The study also assesses the obstacles in the implementation of the GF instruments particularly issues such as lack of awareness, greenwashing and lack of standardisation.

The current study covers the research on the concept of Transformative Green Financial Instruments (TGFIs) contributing to Sustainable Development, Renewable Energy and Climate-resilient Infrastructure in India; with a particular emphasis on India.

4. Results and Discussion

The findings of the study indicate that India’s GF market has experienced substantial growth during the last few years. With the rising environmental issues and global pledges on climate change, both public and private sector institutions have been incentivizing sustainable financing.

Green Bonds have become one of the preferred tools to support sustainable infrastructure investments and renewable energy infrastructure projects. The Government of India's issuance of sovereign green bonds further propelled India's GF efforts and helped advance India's leadership in global sustainable finance.

Table 1

Growth of GF Instruments in India

Year	**Green Bond Issuances (USD Billion)**	**Sovereign Green Bond Activity**	**ESG Investment Growth (%)**
2020	6.1	Not Introduced	18%
2021	7.4	Planning Stage	22%
2022	10.3	Introduced	28%
2023	15.2	Expanded	35%
2024	18.5	Continued Growth	41%

Source: Climate Bonds Initiative (2025), Government Reports

As shown in above table, the growth of green bond issuances and ESG investments are increasing from 2020-24 in India. It's visible from the data that introducing sovereign green bonds had a strong effect on improving the involvement of investors and sustainable financing and activities.

The analysis also finds that the share of GF for RE projects is the highest in India. A further increase in investments into sustainable transportation, e-mobility, waste management, and climate adaptation projects has also been seen under GF.

Table 2

Major Challenges Affecting GF in India

Challenges	**Impact on GF**
Greenwashing Practices	Reduces investor confidence
Lack of Standardised Taxonomy	Creates inconsistency in project classification

Challenges	Impact on GF
High Certification Costs	Limits participation of smaller firms
Limited Retail Investor Awareness	Restricts market expansion
Regulatory Gaps	Slows implementation of green projects

Source: Compiled from SEBI Reports and Scholarly Literature

The results suggest that one of the major hurdles for GF's credibility in India is greenwashing. Existing inadequate ESG disclosure mechanisms and lack of a national green taxonomy cause ambiguity around what projects are sustainable.

Furthermore, smaller companies' lack of participation in sustainable financing exercise is caused by the high cost of certification and compliance. The low understanding of the GF ecosystem among retail investors is another obstacle to scale the system.

Nevertheless, the study shows that with growing policy recognition and institutional engagement and interest from investors across the world, India has tremendous potential for the growth of sustainable finance. Practical enhancement of ESG disclosure norms, greater transparency and better regulatory coordination could be a key enabler to boost the pace of GF growth in India.

5. Conclusion

Transformative financial tools have emerged as an absolute need to boost sustainable financial growth in India. Actions, like green bonds, sovereign green bonds, sustainable or adaptation bonds, and sustainable finance have made significant contributions in the fields of renewable energy, building sustainable infrastructure and adapting to climate change.

India has seen significant development in its GF ecosystem by introducing regulatory reforms and introducing sustainable investment frameworks through sovereign green bond issuances. Several regulatory initiatives have been undertaken to boost ESG disclosures and to encourage responsible investment practices, by regulatory authorities like SEBI and RBI.

But obstacles such as the issue of greenwashing, standardization, costs of certification and little awareness on the part of investors remain to limit the effectiveness of GF instruments. The key findings of the study are that improvements in institutional infrastructure, clear reporting processes for sustainable finance and increased public-private interactions are crucial in building a healthier sustainable finance ecosystem in India.

Effective policy implementation, investor education, international cooperation on climate finance, and establishing a green taxonomy for sustainable financing with transparency and accountability are crucial factors for the future development of GF in India.

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