

Green Finance and Economic Growth

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Abstract

Green finance has emerged as a transformative mechanism that aligns economic growth with environmental sustainability. In India, where rapid industrialization and urbanization are exerting pressure on natural resources, green finance plays a crucial role in promoting low-carbon and climate-resilient development. This study explores the theoretical basis and conceptual relationship between green finance and sustainable economic growth, with particular reference to India’s major sectors such as energy, transport, manufacturing, and agriculture. “Through a review of contemporary literature, the study highlights how financial instruments, such as green bonds, green credit, and sustainability-linked investments, contribute to achieving the Sustainable Development Goals (SDGs). The paper concludes that effective policy frameworks, regulatory support, and increased private participation are essential for expanding the green finance ecosystem in India.

Keywords: Green finance, GDP dynamics, G7 economies, Sustainable transition, Panel regression, Renewable energy, green technologies, carbon reduction, energy efficiency.

Introduction

Green finance refers to financial activities and investments that support environmentally sustainable development. It includes funding for renewable energy, clean technology, energy efficiency, pollution control, climate-resilient infrastructure, and sustainable agriculture. The main aim of green finance is to protect the environment by reducing ecological risks and encouraging the sustainable use of natural resources, while supporting steady and long-term economic development (Agarwal & Rai, 2025). Economic growth means an increase in a country’s production of goods and services over time, leading to higher income, employment opportunities, and improved living standards. Traditionally, economic growth depended heavily on industrialization and fossil fuels, which caused environmental degradation, climate change, and resource depletion. This created a need for a growth model that balances economic development with environmental protection.

Green finance plays a crucial role in achieving sustainable economic growth by directing capital towards eco-friendly projects that generate employment, encourage innovation, and improve energy security (Khushbu, & Agarwal, 2025). Green sector investments contribute to environmental sustainability while fostering the growth of new

industries, improving productivity levels, and reducing long-term economic uncertainties related to climate change.

Thus, green finance acts as a bridge between environmental sustainability and economic growth, ensuring that development today does not compromise the ability of future generations to meet their needs.

Objective

Objectives of Green Finance and Economic Growth

1. **Environmental Protection:** To reduce pollution, carbon emissions, and environmental degradation by financing eco-friendly and low-carbon projects.
2. **Promotion of Sustainable Economic Growth:** To achieve long-term economic growth without harming the environment, ensuring development is sustainable and inclusive.
3. **Efficient Use of Natural Resources:** To encourage responsible and efficient utilization of natural resources such as water, energy, and forests.
4. **Support for Renewable Energy:** To increase investment in renewable energy sources like solar, wind, and hydropower, reducing dependence on fossil fuels.
5. **Climate Risk Reduction:** To minimize financial and economic risks associated with climate change, natural disasters, and environmental damage.
6. **Encouragement of Green Innovation:** To promote innovation and development of green technologies, clean production methods, and sustainable business practices.
7. **Employment Generation:** To create new job opportunities in green industries such as renewable energy, waste management, and sustainable agriculture.
8. **Financial Stability:** To strengthen the financial system by integrating environmental, social, and governance (ESG) factors into investment decisions.
9. **Inclusive Development:** To support social welfare and economic inclusion by funding projects that benefit both society and the environment.

Challenges

Present And Projected Competitiveness: Private Investment in Green Growth in Developing Countries Is Constrained by Both the Activity-Specific and the country-specific barriers that adversely affect the attractiveness of such investments, both in terms of investment returns and risk management. Increasing private investment in green growth will depend on the extent to which these investments become attractive relative to other opportunities, both domestically and internationally.

1. **Lack of Awareness and Knowledge:** Many investors, businesses, and consumers are not fully aware of green finance products and their long-term benefits.
2. **High Initial Cost:** Green projects such as renewable energy and clean technology require high initial investment, which discourages investors.
3. **Limited Access to Green Finance:** Small businesses and developing countries often face difficulty in accessing green funds due to weak financial systems.
4. **Unclear Policies and Regulations:** Inconsistent government policies and lack of clear guidelines reduce investor confidence in green investments.

5. Greenwashing: Some companies falsely label their projects as “green” to attract funds, reducing trust in green finance initiatives.
6. Technological Challenges: Limited availability of advanced green technology and skilled manpower slows down green economic growth.
7. Low Return Perception: Investors often believe that green projects offer lower or uncertain returns compared to traditional investments.
8. Market and Financial Risks: Green investments face risks related to technology failure, climate uncertainty, and changing market conditions.

Conclusion

Green finance is the infrastructure of green growth (Doh 2009: 2). Finally, green growth is an orchestra composed of the technology development company, the financial company, the government, and the consumer. All elements of development should work together in balance to avoid conflict. India now has a chance to grow while reducing environmental damage, which creates wide opportunities for the country’s financial sector. Banks not only need to make direct investments in sustainable development; they also need to leverage their indirect control over the investment and management decisions to influence the business into fulfilling broader social and environmental goals (Hart and Ahuja 1996). There are many opportunities in environmentally responsible finance that banks can utilize to earn profits while supporting sustainability.

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