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Research Paper

Role of Public Sector Banks in Advancing Sustainable Development Goals in India: A Review of Green Banking Initiatives

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ABSTRACT

Public Sector Banks (PSBs) play a pivotal role in India's financial system and act as key instruments for implementing national development priorities. In recent years, the integration of sustainability principles and green banking initiatives by PSBs has gained prominence in the context of achieving the United Nations Sustainable Development Goals (SDGs). This review paper synthesizes existing literature on green banking initiatives undertaken by Indian PSBs and examines their contribution to environmental sustainability and inclusive development. The paper also analyzes policy frameworks, implementation challenges, and future directions, highlighting the strategic role of PSBs in advancing India's sustainable development agenda.

1. Introduction

The adoption of sustainable development as a global policy objective has significantly influenced the functioning of financial systems worldwide. The United Nations Sustainable Development Goals (SDGs), adopted in 2015, provide a comprehensive framework for addressing economic growth, social inclusion, and environmental protection in an integrated manner (United Nations, 2015). For a developing economy like India, achieving these goals requires coordinated action across multiple sectors, including finance and banking.

Public Sector Banks (PSBs) dominate the Indian banking system in terms of asset base, branch network, and outreach to priority sectors. Historically, PSBs have been instrumental in supporting national development objectives such as financial inclusion, poverty alleviation, and infrastructure development (Goyal & Joshi, 2011). With increasing awareness of environmental challenges such as climate change, pollution, and resource depletion, PSBs are now expected to align their operations and lending practices with sustainability goals (Bihari & Pandey, 2015).

Green banking has emerged as a strategic approach through which banks can contribute to sustainable development by minimizing their environmental footprint and promoting eco-friendly investments (Jeucken, 2001). In India, PSBs have gradually adopted green banking initiatives, including financing renewable energy projects, promoting digital banking, supporting sustainable agriculture, and incorporating environmental risk considerations into credit appraisal (Narwal, 2015).

The relevance of PSBs in advancing SDGs is particularly significant because many SDGs—such as clean energy (SDG 7), climate action (SDG 13), responsible consumption (SDG 12), and sustainable infrastructure (SDG 9)—require substantial financial support. Given their mandate and public ownership, PSBs are uniquely positioned to mobilize capital toward these goals while balancing social and environmental responsibilities (Scholtens, 2006).

Despite growing policy emphasis, the literature on the role of PSBs in advancing SDGs through green banking remains scattered. Existing studies often focus on individual initiatives or customer awareness rather than providing a comprehensive assessment of how PSBs contribute to sustainability outcomes. This review paper addresses this gap by

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synthesizing evidence on green banking initiatives undertaken by Indian PSBs and examining their alignment with SDGs and policy implications.

2. Objective of the Study

To review and critically analyze the role of Public Sector Banks in India in advancing Sustainable Development Goals through green banking initiatives and to examine associated policy implications.

3. Conceptual Framework: Public Sector Banking, Green Banking, and SDGs

3.1 Public Sector Banks and Developmental Mandate

Public Sector Banks in India operate under a dual mandate of financial performance and socio-economic development. Unlike private banks, PSBs are expected to prioritize national policy objectives such as inclusive growth, rural development, and social welfare (Goyal & Joshi, 2011). This developmental mandate makes PSBs natural agents for implementing sustainability-oriented financial policies.

3.2 Green Banking as a Tool for Sustainable Development

Green banking integrates environmental considerations into banking activities, including internal operations, lending decisions, and investment strategies (Jeucken, 2001). In the context of PSBs, green banking serves as a bridge between financial intermediation and sustainable development, enabling banks to support environmentally responsible projects while mitigating ecological risks.

3.3 Alignment of Green Banking with SDGs

Green banking initiatives directly and indirectly contribute to several SDGs. Financing renewable energy supports SDG 7, sustainable infrastructure aligns with SDG 9, paperless banking contributes to SDG 12, and climate-responsive lending advances SDG 13 (United Nations, 2015). PSBs, due to their scale and reach, can significantly influence SDG outcomes through targeted financial interventions.

4. Green Banking Initiatives by Public Sector Banks in India

4.1 Policy and Regulatory Environment

The Reserve Bank of India (RBI) has encouraged banks to incorporate sustainability considerations through priority sector lending norms, renewable energy financing guidelines, and climate risk discussions (RBI, 2022). PSBs, being closely aligned with government policy, have been early adopters of these directives. Government initiatives such as the National Action Plan on Climate Change (NAPCC) and India's Nationally Determined Contributions (NDCs) further reinforce the role of PSBs in sustainable finance (MoEFCC, 2021).

4.2 Financing Renewable Energy and Green Infrastructure

One of the most significant contributions of PSBs to SDGs has been through financing renewable energy projects. PSBs have extended credit to solar parks, wind farms, biomass energy, and small hydro projects, supporting India's clean energy transition (Bhattacharyya, 2012). Studies indicate that PSB-led green financing has contributed to increased renewable capacity and reduced carbon emissions (Ghosh & Nanda, 2019).

4.3 Digital Banking and Resource Conservation

PSBs have played a key role in promoting digital banking, particularly through initiatives such as core banking, mobile banking, UPI, and e-governance platforms. Digitalization reduces paper usage, energy consumption, and customer travel, thereby contributing to environmental sustainability (Lalon, 2015). These initiatives also support SDG 12 by promoting responsible consumption of resources.

4.4 Sustainable Agriculture and MSME Financing

PSBs support sustainable agriculture and micro, small, and medium enterprises (MSMEs) through targeted lending schemes. Financing organic farming, drip irrigation, and energy-efficient technologies contributes to SDGs related to food security, sustainable production, and poverty reduction (Narwal, 2015).

4.5 Environmental Risk Assessment and Social Responsibility

Some PSBs have begun integrating environmental and social risk assessment into project appraisal, particularly for large infrastructure projects. Although still at an early stage, this practice reflects growing awareness of climate-related financial risks and aligns with global sustainability standards (Scholtens, 2006).

5. Evidence on Contribution of PSBs to Sustainable Development Goals

5.1 Environmental Sustainability Outcomes

Empirical studies suggest that green banking initiatives by PSBs have contributed to environmental sustainability through reduced operational emissions and increased financing of clean technologies (Bhardwaj & Malhotra, 2019). However, the scale of impact varies across institutions.

5.2 Social and Economic Dimensions of SDGs

PSBs contribute to SDGs not only through environmental initiatives but also through social inclusion, employment generation, and infrastructure development. Green banking initiatives often complement social objectives by supporting sustainable livelihoods and inclusive growth (Goyal & Joshi, 2011).

5.3 Challenges and Limitations

Despite progress, PSBs face challenges such as limited technical expertise, risk aversion, non-performing assets, and lack of standardized sustainability metrics. These constraints limit the effectiveness of green banking initiatives and their contribution to SDGs (Narwal, 2015).

6. Policy Implications and Future Directions

6.1 Strengthening Sustainability Mandates for PSBs

There is a need for stronger regulatory mandates that explicitly link PSB operations to SDG targets. Mandatory sustainability reporting and climate risk disclosure can enhance transparency and accountability (RBI, 2022).

6.2 Capacity Building and Institutional Reforms

Training programs on climate finance, environmental risk assessment, and sustainability reporting can enhance the capacity of PSBs to implement green banking initiatives effectively (UNEP, 2016).

6.3 Enhancing Collaboration and Innovation

Public-private partnerships, green bonds, and blended finance mechanisms can help PSBs mobilize additional resources for sustainable development while mitigating financial risks (Ghosh & Nanda, 2019).

7. Conclusion

Public Sector Banks occupy a central position in India's pursuit of sustainable development due to their extensive reach, developmental mandate, and alignment with government policy objectives. This review highlights that green banking initiatives undertaken by PSBs—ranging from renewable energy financing and digital banking to sustainable agriculture and environmental risk assessment—contribute meaningfully to the advancement of Sustainable Development Goals. However, the impact of these initiatives remains uneven and constrained by institutional and regulatory challenges. Strengthening policy mandates, enhancing institutional capacity, and fostering innovation are essential to maximize the role of PSBs in sustainability transitions. As India strives to balance economic growth with environmental protection, PSBs must evolve as proactive agents of sustainable finance and inclusive development.

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