ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XV, Special Issues– I(c) Jan – Feb, 2026

OPEN ACCESS Original Research Article

THE SYNERGY OF ARTIFICIAL INTELLIGENCE AND GREEN FINANCE FOR SUSTAINABLE INVESTMENT

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Abstract:

Environmental degradation and climate change have created an urgent need for financial support for sustainable development. This study examines how artificial intelligence (AI) can enhance green finance and promote sustainable investment. AI technologies help to improve the assessment of environmental, social, and governance (ESG) factors, and support better decision-making through data analysis. As a result, green financial instruments such as green bonds, green loans, and climate funds become more transparent and efficient.

The study employs a qualitative and conceptual approach, drawing on a review of existing research literature, policy documents, and reports from financial and environmental institutions. Special attention is given to India's green finance initiatives and policy efforts. The findings represent that AI-enabled green finance helps direct funds toward environmentally responsible projects, particularly in the renewable energy sectors like solar and wind power, while reducing financial and climate related risks.

The study also highlights the important roles of government policies and private sector participation in expanding green finance and supporting sustainable development goals. At the same time, challenges such as poor data quality, ethical concerns, and the need for clear regulatory frameworks remain significant, especially in emerging economies like India. Overall, the study concludes that combining artificial intelligence (AI) with green finance can play a crucial role in achieving long-term development in India.

Keywords: *Artificial Intelligence, Green Finance, Sustainable Investment, Sustainable Development*

Introduction:

Sustainable investment has gained increasing importance as climate change and environmental degradation pose serious challenges to economic stability and long-term development. Traditional financial systems, which primarily focus on short-term returns, often fail to account for environmental and social costs, resulting in unsustainable growth patterns (OECD, 2017). In response, green finance has emerged as an important mechanism for directing financial resources toward environmentally responsible activities such as renewable energy, and sustainable resource management (UNEP, 2016).

The growth of green finance began in the early 2000s with global initiatives like the UNEP Finance Initiative and the introduction of green bonds by the European Investment Bank in 2007 (UNEP FI, 2019). Since then, instruments such as green bonds, sustainability-linked loans, and climate-focused investment funds have expanded rapidly. However, the effectiveness of green finance is often limited by challenges, including inconsistent environmental, social, and governance (ESG) reporting, information gaps, and the inability of traditional risk assessment models to capture long-term climate risks (OECD, 2020).

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

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In this context, artificial intelligence (AI) has emerged as a valuable tool for strengthening green finance. AI technologies enable the analysis of large and complex datasets, improving the assessment of environmental, social, and governance (Doddipatla, 2023). Techniques such as machine learning, predictive analytics, and text analysis are useful to financial institutions to evaluate sustainability risks and identify viable green projects more effectively (Alshahmy & Sahiner, 2024). The integration of AI into green finance enhances capital allocation by improving climate risk forecasting and project performance evaluation (Rane et al., 2024). AI also improves transparency through automated ESG scoring and continuous monitoring, helping to reduce information asymmetry (Obinyeluaku et al., 2023). When combined with technologies such as blockchain, AI further strengthens verification and reporting systems, increasing trust in sustainable financial markets (Kassetty et al., 2024).

These developments are particularly relevant for emerging economies such as India, where rapid growth coincides with high climate vulnerability. India has introduced policy frameworks like the National Action Plan on Climate Change and regulatory initiatives by the Reserve Bank of India to promote green finance (MoEF&CC, 2023; RBI, 2022). In this setting, AI-enabled green finance offers significant potential to support sustainable development while addressing climate related financial risks.

Conceptual Framework:

This study is grounded in a conceptual framework that explains the relationship between green finance, artificial intelligence (AI), and sustainable development. Green finance, referred to as sustainable or climate finance, integrates environmental, social, and economic considerations, such as renewable energy, sustainable infrastructure, and socially inclusive projects (UNEP, 2016; OECD, 2017).

Artificial intelligence functions as a mediating and enabling variable that enhances the effectiveness of green finance by improving ESG evaluation, climate risk assessment, data processing, and project monitoring. (Doddipatla, 2023).

Sustainable development is the dependent variable and reflects long-term environmental protection, social well-being, and economic resilience. The framework suggests that the integration of AI with green finance strengthens capital allocation toward low-carbon and climate-resilient projects, supporting national commitments such as net-zero targets (RBI, 2022; MoEF&CC, 2023).

Literature Review:

1. **Akash and Kumari (2025)** in their study examined artificial intelligence-enhanced environmental, social and governance (ESG) analytics and climate risk forecasting. According to them, artificial intelligence (AI) improves transparency, accuracy in risk assessment, and efficient allocation of capital to environmentally sustainable projects.
2. **Alshahmy and Sahiner (2024)** studied AI-driven predictive models for climate-related financial risks. Artificial intelligence tools can forecast environmental and financial risks more accurately than traditional methods, supporting better investment decisions in green finance.
3. **Doddipatla (2025)** in his study explored the integration of AI in sustainable investment decision-making. According to him, artificial intelligence helps combine environmental, social and governance (ESG) metrics with financial returns, allowing investors to optimise portfolios for profitability and environmental responsibility simultaneously.
4. **Nenavath and Mishra (2023),** in their study, examine how green finance and fintech, including AI tools, can enhance sustainable economic growth. They found that AI enhances environmental

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XV, Special Issues– I(c) Jan – Feb, 2026

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assessment and the systemic impact of financial decisions, but effective policy frameworks are necessary for proper integration.

5. **Obinyeluaku et al. (2023)** investigate AI applications in environmental, social and governance data analytics. Machine learning helps standardise environmental, social and governance (ESG) disclosures, reduce information gaps, and detect greenwashing, thereby strengthening credibility and trust in green financial markets.
6. **Pasupuleti (2025)** proposes a conceptual framework for integrating AI into green finance. Focuses on data transformation, predictive modelling, governance, and risk management to optimise investment decisions for sustainable development.
7. **Sohail et al. (2025)** focus on AI-powered auditing mechanisms. These systems improve monitoring and compliance of environmental, social and governance (ESG) performance in green finance, helping reduce risks such as misreporting or greenwashing.

Research Gap and Study Focus:

Artificial intelligence has shown promise in improving environmental, Social and governance (ESG) analytics, risk assessment, and monitoring of sustainable projects (Nenavath & Mishra, 2023). However, most research is theoretical or global, with limited evidence from emerging economies like India. There is also a lack of studies on sector-specific applications, such as renewable energy, sustainable agriculture, and climate-resilient infrastructure, and little understanding of AI's long-term impact on sustainability, capital allocation, and financial returns. Research on integrating artificial intelligence (AI) into policy, governance, and regulations is also limited, leaving practical challenges unaddressed.

This study addresses these gaps by examining how artificial intelligence (AI) can enhance green finance in India. It explores AI's role in environmental, Social and governance (ESG) evaluation, and evaluates governance frameworks to improve transparency, accountability, and sustainable investment outcomes.

Research Methodology:

This study employs a qualitative and conceptual approach, and it is based on existing information rather than original data collection. It examines earlier research studies, government policies, and reports prepared by financial and environmental organisations such as the Ministry of Environment, Forests, and Climate Change (MoEFCC) report, NSO, NITI Aayog, Department of Economic Affairs, IMF's World Economic Outlook, UNFCC, United Nations Environment Programme (UNEP), World Bank, and International Monetary Fund (IMF) IFSCA Report, to understand the subject in depth.

Objectives of the Study:

1. To study the status of Green Finance in India.
2. To analyse policy initiatives towards AI in Green Finance in India.
3. To provide recommendations about green finance initiatives in India

Data Analysis and Findings:

A. Status of Green Economy and Green Finance in India

According to the latest report from the Climate Bonds Initiative (June 2025), India's sustainable debt market is really taking shape.

Table 1 / Source: Bonds India Sustainable Debt SotM 2024 Jun-2025.

Metric	Green	Social	Sustainability	SLB	Total
Volume (USD bn)	46.6	6.6	2.2	0.5	55.9
Market Share (%)	83	12	4	1	100
Deal Count	162	11	4	1	179

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XV, Special Issues– I(c) Jan – Feb, 2026

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2024 Issuance (USD bn)	6.4	5.5	0.6	0	12.5

Table 1 shows the total mix of green, social, and sustainability bonds through the end of 2024. Green bonds clearly dominate, with a volume of USD 46.6 billion, accounting for 83% of total outstanding sustainable debt and 162 out of 179 deals, highlighting India's strong emphasis on climate and energy-transition financing. Social bonds represent the second-largest category at USD 6.6 billion (12%), despite fewer issuances, suggesting larger deal sizes. Sustainability bonds (USD 2.2 billion, 4%) and sustainability-linked bonds (USD 0.5 billion, 1%) remain marginal, reflecting their early stage of development in India. In 2024, total GSS+ issuance reached USD 12.5 billion, primarily led by green and social bonds, indicating a gradual yet still limited diversification of India's sustainable debt market beyond green instruments.

Table 2 / Source: Bonds India Sustainable Debt SotM 2024 Jun-2025.

Issuer Category	Deals	Volume (₹ Cr)	Average Tenure	Coupon Range
Renewables/Corporates	18	7,800	3-10 years	6.35-11.25%
Municipal Corporations	6	1,194	4-10 years	7.85-8.25%
REITs/Sustainability	4	3,050	3-8 years	Variable-7.41%
Total: 28 Issuances	28	11,023	5 years	6.35-11.25%

Table 2 shows that India's SEBI-regulated domestic ESG debt market comprised 28 issuances worth ₹11,023 crore by December 2025, with an average maturity of approximately five years. Renewable energy companies and corporates dominate this segment, accounting for many deals and volumes, followed by municipal corporations, indicating growing use of ESG bonds for urban infrastructure, and a smaller contribution from REITs and sustainability-focused entities. Coupon rates ranged between 6.35% and 11.25%, reflecting varied issuer risk profiles. Overall, the table highlights how India's rupee-denominated ESG market complements the much larger global GSS+ market, supported by stronger regulation, sovereign green bond benchmarks, and rising investor demand.

B. Policies Towards Artificial Intelligence in Green Finance in India

The integration of Artificial Intelligence within India's green finance sector is critical for achieving the nation's ambitious sustainable development goals and its net-zero emissions target by 2070 (Siriman et al., 2025). The application of AI can help investors diversify their portfolios while enabling issuers to develop AI-powered green financial instruments, thereby attracting capital towards environmentally sustainable projects (Riani, 2024). This integration empowers financial institutions to leverage AI algorithms and predictive analytics for evaluating sustainable investments and crafting innovative Environmental, Social, and Governance-compliant financial solutions, which is crucial given the nascent stage of green financing practices in India (Alshahmy & Sahiner, 2024; Shah et al., 2023). This synergistic relationship between AI and

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XV, Special Issues– I(c) Jan – Feb, 2026

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green finance is crucial for addressing environmental challenges and promoting economic growth that is both inclusive and sustainable, thereby aligning with global Sustainable Development Goals (Oyewole et al., 2024).

India is going through a dual transformation, adopting advanced digital technologies while simultaneously responding to the urgent need for environmental sustainability. By integrating Artificial Intelligence (AI) with Green Finance, the government aims to make environmentally responsible investments more efficient, transparent, and measurable.

Although India does not yet have a standalone "Green AI" authority, India's several policy initiatives clearly demonstrate how advanced technologies are being used to support financing for a greener economy.

1. **Sovereign Green Bonds (SGBs)**
   Since 2023, the Indian government has been raising money through Sovereign Green Bonds specifically for eco-friendly projects. Simply put, the government borrows funds with a promise that the money will be used only for activities that help the environment. This includes areas like renewable energy and sustainable infrastructure. So far, about ₹16,000 crore has been collected through these bonds, supporting India's efforts to move towards cleaner and more sustainable development.
2. **India AI Mission (2024)**
   With an investment of over ₹10,372 crore, the India AI Mission reflects India's long-term vision to build strong leadership in artificial intelligence. Its purpose goes beyond commercial innovation and clearly includes environmental protection and climate responsibility. AI technologies are now being used to evaluate companies' ESG performance by studying satellite data, environmental indicators, and business information, making sustainability assessment quicker and more accurate than traditional methods. At the same time, the AI Kosh platform provides a shared and reliable pool of climate and environmental data, helping banks and investors better understand risks and opportunities when supporting green startups and sustainable projects.
3. **National Action Plan on Climate Change (NAPCC)**
   The National Action Plan on Climate Change (NAPCC) outlines India's long-term approach to tackling climate change through eight focused missions covering areas such as clean energy development, water resource management, and environmental conservation.
4. **RBI Guidelines and IFSC Expansion (2025)**
   The Reserve Bank of India (RBI), in collaboration with the International Financial Services Centre (IFSC) at GIFT City, is playing a crucial role in shaping regulations for the application of artificial intelligence in green finance. By following the RBI's free framework, which emphasises fairness, reliability, transparency, and ethical use, financial institutions are expected to adopt AI systems that avoid bias and do not unfairly exclude credible, sustainable projects. Looking ahead to 2025 and beyond, the growth of green bond trading at the IFSC is expected to bring in more global investors.

Recommendations:

The research underscores critical recommendations that India clearly link artificial intelligence with green finance through well-defined policies and practical guidelines. Regulators such as RBI, SEBI, and IFSCA should ensure that AI is used in a fair, transparent, and responsible manner while assessing green projects and ESG performance. More attention is needed on using AI in key sectors like renewable energy, sustainable agriculture, and climate-resilient infrastructure, where it can improve project selection and risk management. Improving the quality and availability of environmental and ESG data will make AI tools more effective and

ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XV, Special Issues– I(c) Jan – Feb, 2026

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reliable. Financial institutions should also focus on building skills and technical capacity to use AI confidently, while cooperation between government, industry, and technology firms can support innovation. In the long run, continuous AI-based monitoring should be encouraged to ensure that green investments truly deliver environmental benefits along with stable financial returns.

Conclusion:

Green finance is helping India move towards a cleaner and more sustainable economy, mainly through the growth of green bonds. This study shows that artificial intelligence can make green finance more effective by improving environmental, social and governance (ESG) evaluation, transparency, and risk management. Although India has introduced supportive policies, the actual use of artificial intelligence (AI) in green finance is still developing. Problems like limited data and unclear sector-wise guidelines remain. Better coordination between technology, policy, and regulation is needed.

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ISSN–2278-5655

AMIERJ Aarhat Multidisciplinary International Education Research Journal

Volume–XV, Special Issues– I(c) Jan – Feb, 2026

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Cite This Article:

Nigam A.O. & Prof. Dr. Patil B.S. (2026). *The Synergy of Artificial Intelligence and Green Finance for Sustainable Investment*. **In Aarhat Multidisciplinary International Education Research Journal**: Vol. XV (Number I, pp. 12–18) **Doi: https://doi.org/10.5281/zenodo.18641166**