

Unlocking Sustainability: A Theoretical Framework Linking Green Bonds to Sustainable Development

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ABSTRACT

Green bonds have emerged as a pivotal financial instrument to promote sustainable development by channelling investments into environmentally friendly projects. Despite their growing significance, the specific mechanisms through which green bonds impact sustainable development remain underexplored. This paper proposes a theoretical framework that links the issuance of green bonds to the prioritization of environmental goals within financial markets. Sustainable development is defined as the balanced integration of environmental resource management and economic growth. The model highlights a direct, non-linear relationship between green bonds and sustainable development, driven by the optimization of societal utility. Green bonds are shown to significantly support sustainable development by directing funds to eco-friendly projects and promoting cleaner production practices. The positive impact of green bonds is further amplified under conditions such as enhanced innovation efficiency, industrialization, and national savings. Moreover, the paper argues that the effectiveness of green bonds is contingent upon reaching a critical threshold in a country's factor endowment structure, after which the role of green bonds diminishes, and sustainable development advances autonomously. This study offers a theoretical foundation for understanding the conditions under which green bonds can maximize their potential to foster sustainable development.

Keywords: Green Bonds, Sustainable Development, Financial Instruments.

