Editorial

Inclusive Green Finance: A Vision for the Future

Abstract

Until recently, the academic and policy literature has predominantly treated green finance and financial inclusion as separate and disconnected concepts. Nevertheless, this research reveals significant intersections between these facets of finance. It becomes evident that the demographic groups at the forefront of financial inclusion efforts are often at greater risk from the consequences of both local and global environmental shifts. Simultaneously, these groups also play a vital role in efforts to mitigate environmental change. Consequently, it is required to advocate a comprehensive strategy that integrates green finance and financial inclusion policies into a unified framework known as integrated inclusive green finance (IGF).

Keywords: Green Finance, Financial Inclusion, Inclusive green finance, policy regulators, vulnerable groups

Introduction

Amidst the increasing emphasis on sustainable development and safeguarding the environment, the United Nations introduced the Sustainable Development Goals (SDGs) in 2015. These goals offer a strategic path toward global peace and prosperity. Concurrently, in that same year, nations came together to endorse the Paris Agreement, aimed at constraining global warming to levels below 2 degrees Celsius. Furthermore, participants in the United Nations Climate Change Conference of Parties, often referred to as COP26, have committed to mitigating the greenhouse effect. To successfully realize the objectives of the SDGs, the Paris Agreement's goals, and the COP26 mandate, substantial financial resources are imperative (Tollefson, 2018). A study conducted by Andrew M (Moxey et al., 2021), examined the potential of integrating...
environmental considerations into financial decision-making as a means to promote both economic sustainability and environmental conservation. The shift towards eco-friendly and low-carbon practices necessitates innovative financial approaches to support the expanding green economy's requirements (Dikau & Volz, 2021). Hence, advocates for the green economy have put forth the concept of green finance as a potential means to address the financial requirements associated with projects and initiatives dedicated to the sustainable preservation of the environment (Falcone & Sica, 2019).

Green finance represents a contemporary innovation that offers an alternative approach to financing environmentally friendly or low-carbon initiatives (Huang et al., 2019). Chenghao Sun (Sun, 2022) conducted correlation analyses have established a link between green finance and carbon emissions. These analyses have demonstrated that a country's financial development can serve as a catalyst for not only effectively reducing carbon emissions but also for fostering the growth of a low-carbon economy. Green finance not only contributes to alleviating energy constraints but also exerts a positive influence on economic progress and the reduction of carbon dioxide emissions. Some of the benefits of green finance are: i) allocation of fund to preserve environment (Wang & Zhi, 2016), flow of fund for sustainable activities (Eyraud et al., 2013), low carbon financing (Taghizadeh-Hesary & Yoshino, 2019) and development of innovative instruments (Taghizadeh-Hesary & Yoshino, 2019). Shen (Shen et al., 2021) suggested the need to initiate green projects through green bonds, green banks and promote other financial instruments that support environmental benefits. Yao and Qiang (Wang & Zhi, 2016) stated that if the market mechanism of green finance is rational, it can support the flow of funds towards efficient management of environmental risk and optimal allocation of environmental and social resources.

Green Finance primary focus is on safeguarding the ecological environment, managing and curbing environmental pollution, and advancing sustainable social development through the allocation of economic and financial resources. This approach proves advantageous in maintaining a harmonious equilibrium between vi
economic objectives and environmental responsibilities, providing vital monetary support for green development. (Mohd & Kaushal, 2018).

The scope of global green finance is predominantly characterized by the prevalence of green bonds showcasing a broader spectrum of development. Green bonds effectively ensure sufficient funding for green investments by striking a balance between costs borne by present and future generations (Heine et al., 2019). Green bonds have the capacity to provide ample funding for environmentally friendly investments by achieving a cost equilibrium that considers the interests of both present and future generations. Green bonds, renowned for their risk mitigation attributes and their appeal to institutions and socially conscious investors, are gaining prominence as integral components of climate change and sustainable development financing strategies. (Tolliver et al., 2020)

Green innovation, through its innovative approaches, aims to introduce novel products, processes, services, and market solutions that contribute to the reduction of natural resource consumption, minimization of ecological harm, and enhancement of resource allocation efficiency. Consequently, it emerges as the driving force behind supporting and realizing sustainable economic development pathways. The 2020 Global Innovation Index, published by the World Intellectual Property Organization, indicates a shift in the epicenter of global innovation towards the East. China, a prominent innovator, has been increasingly drawing attention in this context. Furthermore, the number of granted patents related to green innovation in China surged from around 156 in 2001 to 5614 in 2018, marking a remarkable 36-fold increase according to data from the Chinese National Intellectual Property Administration. Nevertheless, despite its potential, green innovation faces constraints primarily stemming from its long-term nature and the associated high financing costs.

Financial institutions offer loans with favorable terms to fund green projects or activities. These loans may be used for initiatives like energy-efficient building upgrades or the development of eco-friendly technologies.
The IFC employs this approach by amalgamating various databases containing information on syndicated bank loans and company operations to assess environmentally sustainable endeavors. Among the syndicated loans finalized in 2014, the IFC reports that 3,610 out of 4,412 supported projects included elements of sustainability. In monetary terms, approximately USD 165 billion were categorized as green loans. According to the IFC's criteria, 41 percent of these green loans are associated with real estate. When examining various nations, the IFC's analysis reveals that the United States leads in terms of the overall volume of green loans, with the United Kingdom, Australia, France, Japan, and China following in descending order. This observation aligns with the expected outcome, given the relative scale of their financial markets. On the other hand, when it comes to the proportion of green credit within their respective loan markets, Turkey holds the highest share, exceeding 70 percent (Gilchrist et al., 2021).

Impact investing (II) is a recent concept employed to denote investments primarily intended to generate concrete social benefits, while also holding the potential for a financial yield on the investment. Impact investments distinguish themselves from conventional investments by incorporating an active social and/or environmental purpose alongside their financial goals (Clarkin & L. Cangioni, 2016).

Financial inclusion, on the other hand, is the concept of making financial services and products accessibilities’ and affordable to all individuals, including those in underserved or marginalized communities. It is about ensuring that everyone could participate in the formal financial system and benefit from its advantages. Key aspects of financial inclusion include access to banking services, savings and credit options, insurance, and digital financial tools (Ozili, 2020).

Underpinning a just transition to a robust and environmentally sustainable economy, vulnerable populations assume a pivotal role. Neglecting to enhance the socioeconomic status of these vulnerable groups could potentially lead to intense resistance against climate mitigation policies. The necessity of time is to underscore the interconnectedness between climate change, environmental deterioration, vulnerable communities, societal disparities, tension,
and financial stability. It posits that while not a universal remedy, integrated inclusive green finance (IGF) can wield substantial influence in aiding vulnerable groups to cope with worldwide environmental shifts. IGF can fortify their resilience and facilitate mitigation efforts.

**Conceptualising Inclusive Green Finance**

Academic and policy discourse, green finance (GF) and financial inclusion (FI) have traditionally been approached as distinct, largely disconnected concepts. Similarly, in practical terms, central banks and financial regulators have typically managed GF and FI as separate initiatives, often assigning different teams to handle these matters. Nevertheless, as elucidated in this study, there exist significant intersections between GF and FI. This convergence becomes evident when considering that the primary beneficiary groups of FI are often at an elevated risk of experiencing the consequences of local and global environmental shifts. These very groups also play a crucial role in mitigating environmental change, underscoring the need for a more integrated approach (*Inclusive Green Finance: A Survey of the Policy Landscape (Second Edition) - Alliance for Financial Inclusion, n.d.*).

The connection between green finance and financial inclusion lies in the need to ensure that environmentally sustainable financial services are accessible to a broad spectrum of society, including low-income and marginalized populations. Achieving this synergy involves Inclusive Green Financial Products. Developing green financial products that cater to the specific needs and income levels of underserved communities, making it easier for them to participate in sustainable initiatives. This will help to achieve environmental sustainability and the mitigation of environment-related financial systemic risk (the primary objectives of green finance) on one hand, and poverty alleviation and social inclusion (the primary aims of financial inclusion) on the other hand.

Providing education and awareness programs about green finance and its benefits to ensure that people from all backgrounds can make informed choices about their investments and financial decisions.
In the era of digitalisation digital inclusion can play an important role to extend the reach of green finance products and services to remote or unbanked populations, thereby promoting both sustainability and financial inclusion.

Governments and regulators can play a role in promoting both green finance and financial inclusion by creating an enabling environment, setting standards, and offering incentives for financial institutions to expand their services to underserved communities and prioritize sustainability.

**Alliance of GF & FI**

The alliance of green finance and financial inclusion can be expressed in 4 Ps

![Diagram of 4 Ps for Inclusive Green Finance](source)

Figure 1 visually illustrates the intricate connections among climate change, environmental deterioration, vulnerable communities, social disparities, tensions, and financial stability. As previously discussed, climate change and environmental degradation can exert immediate impacts on vulnerable groups, and vice versa. These effects are particularly pronounced as climate change and environmental degradation threaten the livelihoods and assets of these vulnerable communities, leading to adverse consequences for social equity and the potential emergence of conflicts and tensions.
within society. Concurrently, lower-income households and micro, small, and medium-sized enterprises (MSMEs) often lack the means and capacity to reduce their environmental footprint, which can result in significant environmental harm through their activities. Social inequity and exclusion from economic opportunities further restrict the ability of vulnerable groups to shield themselves from the repercussions of environmental change. While integrated inclusive green finance (IGF) is not a cure-all, it can play a significant role in assisting vulnerable groups in adapting to global environmental changes and enhancing their resilience. Moreover, IGF can facilitate mitigation efforts by vulnerable groups while also supporting their economic prospects.

Furthermore, Figure 1 also shows the pivotal role that vulnerable groups assume in advancing a fair transition toward a robust and environmentally sustainable economy. Without enhancing the socioeconomic conditions of various vulnerable groups, climate mitigation policies could combat significant resistance. Without empowering households in the lower-income bracket and supporting the business prospects of micro, small, and medium-sized enterprises (MSMEs), the idea of a just transition will remain aspirational rather than attainable. Integrated inclusive green finance (IGF) can serve as a crucial tool in supporting the realization of a just transition.

**Conclusion**
The intersection of green finance and financial inclusion involves making environmentally responsible financial services accessible and relevant to a broader population, ensuring that the benefits of sustainability are shared by all segments of society.

Financial regulators, supervisors, and government finance officials possess a range of instruments they can employ to translate the idea of inclusive green finance into concrete policies. By capitalizing on the synergies between green finance and financial inclusion, they can enhance the well-being of low-income households and micro, small, and medium-sized enterprises (MSMEs), all while contributing to both climate change adaptation and mitigation. In this section, the fundamental components of a novel policy framework for integrated inclusive green finance (IGF) are delineated.
It is essential to recognize that both environmental and social risks can present substantial threats to financial stability. The substantial impacts of unaddressed climate change, along with disruptions restricting from an unmanaged transition, can pose significant risks to the stability of financial systems. Likewise, escalating social inequality and tensions have the potential to diminish the customer base of financial institutions, impacting loan repayments, or even contributing to an uncontrolled transition. Consequently, it is imperative for central banks and regulators to tackle both environmental and social risks to ensure the stability and smooth operation of the financial system. This can be achieved through prudential policies and by providing support for integrated inclusive green finance (IGF).

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References


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