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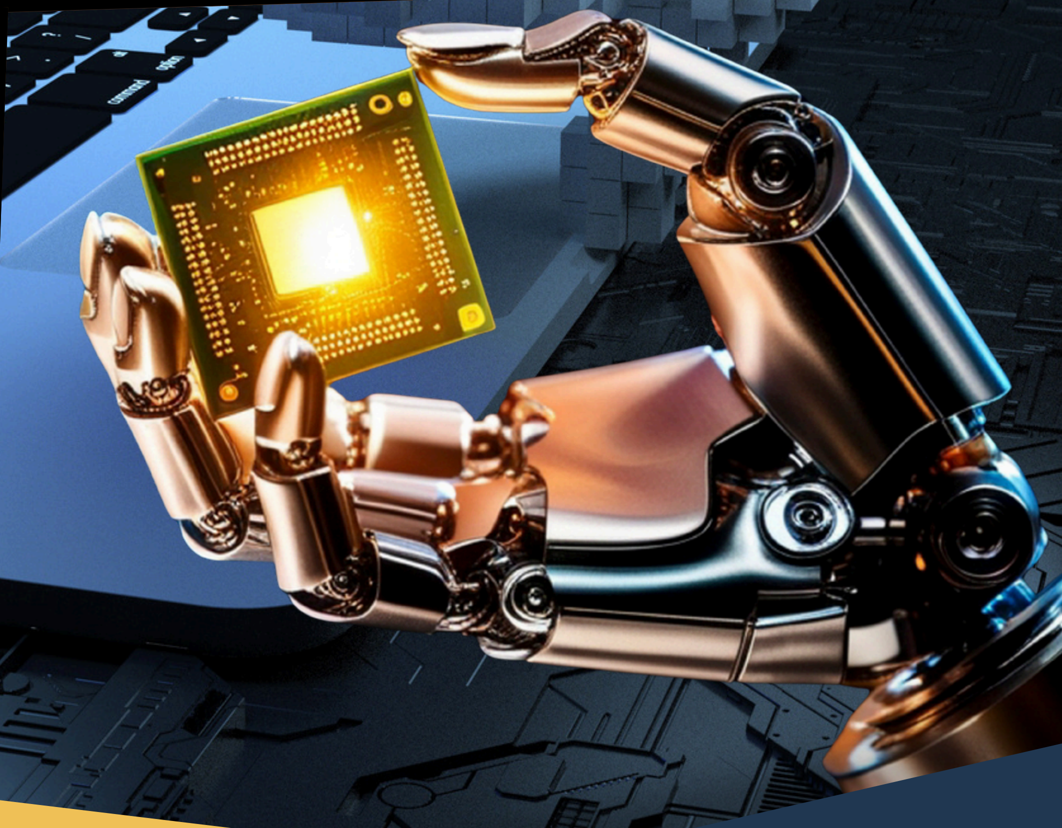

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TABLE OF CONTENTS

ECO-MICROCREDIT AS A CATALYST FOR RURAL SUSTAINABILITY

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INTRODUCTION

Rural households continue to face persistent challenges related to income instability, limited access to finance, and increasing exposure to environmental risks. Phenomena such as climate change, soil degradation, and natural resource scarcity further exacerbate rural vulnerability, particularly in agriculture-dependent communities. While conventional microcredit has been widely promoted as a poverty alleviation instrument, its ability to support environmentally sustainable livelihoods remains mixed (Phan et al., 2019; Shahidullah & Haque, 2014).

In response to these constraints, the concept of eco-microcredit has emerged as an innovative financing approach that integrates microfinance with environmental sustainability objectives. Eco-microcredit prioritises financing for environmentally responsible activities such as sustainable agriculture, conservation technologies, and renewable energy investments (Lal & Israel, 2006; Liu, 2024). As argued by Mohamed Isa et al. (2025), eco-microcredit represents a strategic shift from purely income-focused lending towards sustainability-oriented rural finance.

Accordingly, this paper aims to distil and discuss the concept of eco-microcredit as a standalone construct, focusing on its definition, theoretical grounding, and contribution to rural sustainability.

CONCEPTUALISING ECO-MICROCREDIT

Eco-microcredit can be conceptualised as a form of green financing embedded within microfinance systems that align financial inclusion with environmental objectives. Mohamed Isa et al. (2025) describe eco-microcredit as microfinance products intentionally designed to support sustainable farming practices and environmentally friendly livelihood activities.

Unlike traditional microcredit, which typically focuses on general consumption or short-term income generation, eco-microcredit is purpose-driven, directing funds towards sustainable inputs, technologies, and practices (Lal & Israel, 2006). The approach is also outcome-oriented, with an emphasis on long-term household sustainability over short-term income gains (Yan et al., 2025). Furthermore, eco-microcredit is integrative, linking financial access with behavioural change by encouraging environmentally responsible production decisions (Mohamed Isa et al., 2025).

Through this lens, eco-microcredit functions as a bridge between financial inclusion and sustainable rural development, by directly incorporating environmental considerations into household-level financial decision-making.

THEORETICAL FOUNDATION OF ECO-MICROCREDIT

The concept of eco-microcredit is theoretically grounded in the Sustainable Livelihoods Framework (SLF), which emphasises the role of financial capital in shaping livelihood strategies and sustainability outcomes (DFID, 1999). In this context, eco-microcredit not only enhances households' financial assets, but also influences the way in which these assets are utilised towards environmentally sustainable activities (Mohamed Isa et al., 2025).

Ecological modernisation theory further supports this perspective by suggesting that financial and technological innovation can align economic development with environmental protection (Mol & Sonnenfeld, 2000). From this viewpoint, eco-microcredit serves as a financial innovation that enables rural households to adopt greener production methods without sacrificing their economic viability.

Additionally, innovation-adoption theory explains variation in households' responses to eco-microcredit, by highlighting factors such as the importance of perceived benefits, compatibility, and access to knowledge in adopting sustainable practices (Rogers, 2003). Together, these theories position eco-microcredit as an enabling mechanism, rather than a guaranteed solution for sustainability.

ECO-MICROCREDIT AND RURAL SUSTAINABILITY

Eco-microcredit contributes to rural sustainability by easing financial constraints that prevent households from investing in environmentally responsible livelihood activities. Empirical evidence cited by Mohamed Isa et al. (2025) shows that access to green-oriented microcredit can improve income stability, reduce vulnerability, and enhance household resilience, especially when credit is used productively.

By supporting investments in sustainable inputs and technologies, eco-microcredit encourages practices that improve productivity while conserving natural resources (Kipkogei et al., 2025; Mariyono et al., 2019). This dual benefit aligns with findings from green finance initiatives that demonstrate improved rural income and reduced dependence on environmentally harmful practices (Yan et al., 2025).

However, eco-microcredit alone is insufficient to guarantee sustainability. Studies highlight that repayment pressures and limited financial capability may undermine long-term benefits if credit is poorly managed (Phan et al., 2019). This reinforces the argument by Mohamed Isa et al. (2025) that eco-microcredit must be embedded within supportive institutional and capacity-building frameworks.

POLICY IMPLICATIONS AND CONCLUSION

The eco-microcredit concept carries important implications for rural development policy and microfinance practice. Financial institutions are encouraged to design eco-microcredit products that explicitly incentivise sustainable activities, rather than treating environmental outcomes as incidental (Liu, 2024).

For policymakers, eco-microcredit offers a practical mechanism to aligning financial inclusion initiatives with sustainability agendas. As suggested by Mohamed Isa et al. (2025), integrating eco-microcredit with training, extension services, and monitoring mechanisms is seen as likely to enhance its effectiveness in achieving long-term rural sustainability.

Overall, eco-microcredit represents a significant evolution in microfinance by embedding environmental sustainability within rural financial inclusion. Drawing on Mohamed Isa et al. (2025) and related green finance literature, this paper highlights eco-microcredit as a targeted financing mechanism that enables rural households to pursue sustainable livelihood strategies.

Rather than focusing solely on income generation, eco-microcredit supports long-term household sustainability by aligning financial access with ecological responsibility. As rural communities face increasing economic and environmental pressures, eco-microcredit provides a promising pathway for sustainable rural transformation.

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