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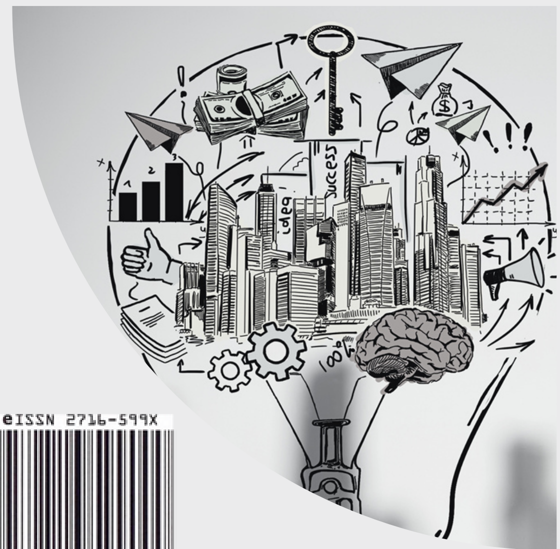

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INTRODUCTION

The importance of green finance is rising across the global economies (Sachs et al., 2019). In simple terms, green finance refers to financial goods, services, and investment activities that support and promote ecologically friendly projects and businesses. Its principal goal is to shift capital flows to activities and investments that support the transition to low-carbon, climate-resilient, and ecologically responsible economies (Ozili, 2022a).

In economic activities, green finance involves funding initiatives and businesses that benefit the environment or address environmental issues. Such projects often focus on renewable energy, energy efficiency, sustainable infrastructure, waste management, clean transportation, and other environmentally beneficial endeavours. Green finance takes various forms, including green bonds, green loans, green investment funds, and green insurance.

Moreover, green finance is thriving globally, with the green finance market potentially worth $2.36 trillion by 2023 (Sean, 2020). One common green finance instrument is the green bond. The US, China, and France are the three largest issuers of green bonds. To qualify, a bond must adhere to criteria on the use of proceeds, have a process for project evaluation and selection, ensure proper management of any proceeds, and offer detailed reporting.

In Malaysia, green finance practices took a significant step when Malaysia launched the world's first green sukuk on June 27, 2017. The sukuk can be defined as a green Islamic bond, where the proceeds are used to fund specific environmentally sustainable infrastructure projects, such as the construction of renewable energy generation facilities. Currently, the total outstanding amount of green, social, and sustainability bonds in Malaysia was approximately USD 6.1 billion at the end of June 2022, with private sector issuances leading the way.

Within the Malaysian financial system, there is a growing demand for green financial products and services, driven by increasing awareness not only for economic but also environmental purposes. As a real-world example, the relaunch of the SME Green Financing Scheme resulted in an increase in loan applications for RHB Bank, amounting to about RM 500 million, with RM 290 million in financing approved as of May 2023 (Yap, 2023). This demonstrates that support from financial institutions and government backing encourages the implementation of green finance in a country. Thus, the objective of this article is to provide a brief discussion and highlight the various roles and responsibilities of financial institutions in stimulating green finance in a country.

GREEN FINANCE AND ROLE OF FINANCIAL INSTITUTIONS

Green finance plays a crucial role in mobilising private sector financing for ecologically beneficial initiatives, supporting public funds and government efforts to combat climate change and promote sustainable development. Green finance strives to achieve positive environmental change while offering feasible investment possibilities by aligning financial incentives with long-term goals.

In order to successfully implement green finance, ample government support systems, financial institutions, and public awareness are needed. This study only discusses the role of financial institutions in supporting the objective of green finance. Berensmann and Lindenberg (2016) and Ozili (2022a) explained that financial institutions play a critical role in promoting green finance by leveraging their expertise, resources, and networks to direct capital towards environmentally sustainable projects and businesses. There are some key roles that financial institutions can play in advancing green finance. The first role is increasing the flow of private capital (Berensmann & Lindenberg, 2016) by providing green financing solutions where financial institutions can design and offer specialised green financial products and services, such as green bonds, green loans, and sustainability-linked products. These instruments will allow investors and borrowers to support and participate in environmentally friendly initiatives. The various selections of green finance instruments will attract more investment to one country.

The second role is financial institutions can build engagement with companies and projects (Sachs et al., 2019) to encourage the adoption of sustainable practices and improvements in environmental performance. This engagement can include discussions on carbon reduction strategies, resource efficiency, and environmental impact assessment. Next, financial institutions can advocate for supportive regulatory and policy frameworks that promote green finance (Volz, 2017). Central banks, as regulators of monetary policy, can use monetary policy instruments to support green finance, such as discount policy, reserve requirement and open market operations. Financial institutions also can collaborate with policymakers to develop incentives, tax breaks, and regulations that encourage sustainable investments.

Furthermore, financial institutions can support capacity building and knowledge sharing within their organisations and their clients. By educating staff and customers about green finance opportunities, they can drive awareness and understanding of sustainable investment options. The last role of financial institutions towards supporting green finance is to establish specialised green investment funds or allocate a portion of their existing funds to environmentally responsible projects (Nassiry, 2018; Ozili, 2022b). This fund will allow investors to participate in a diversified portfolio of green assets, including green bonds.

CONCLUSION

Based on the above discussion, green finance can successfully be implemented with sufficient support from financial institutions. By actively engaging in the above roles, financial institutions can contribute significantly to the growth of green finance and support the global transition to a more sustainable and resilient economy. In addition, the government could offer incentives to financial institutions to develop a green finance initiative. At the same time, financial institutions can create new lending products specifically tailored to green finance instruments or activities.

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