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Green finance and shaping a sustainable future

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IN recent years, the global focus on addressing climate change and achieving sustainable development has reached unprecedented levels.

As the need to address environmental challenges grows, the emergence of 'green finance' has become a powerful tool for driving positive change. This innovative approach to investing and financing supports environmentally-friendly and socially-responsible projects.

Green finance not only seeks financial returns. It also promotes the transition to a more sustainable future. This is done by channelling capital towards sustainable enterprises and environmentally-beneficial projects.

Green finance encompasses a broad range of financial products, services and investments that prioritise environmental sustainability. It involves directing funds to projects and businesses that promote renewable energy, energy efficiency, clean technology, sustainable agriculture, waste management and climate resilience. It plays a vital role in mitigating climate change, reducing greenhouse gas emissions, and protecting ecosystems by encouraging investment in these sectors.

Additionally, it promotes economic growth, job creation and sustainable development, making it a win-win situation for the environment and the economy.

Green finance has grown in popularity over the years as governments, financial institutions and investors recognise its potential for positive impact. The trend towards sustainability is not limited to developed countries, but also to emerging economies.

With a goal of becoming a carbon-neutral nation by 2050, Malaysia has been at the forefront of this transition, embracing green finance as a means of addressing environmental challenges while promoting economic prosperity.

Since the Securities Commission of Malaysia (SC) introduced the Sustainable Responsible Investment (SRI) Framework in 2014, demand for sustainable financial products has been steadily increasing in Malaysia.

Green sukuk and bonds, social bonds and sustainability bonds have gained traction, giving investors the opportunity to support projects with positive environmental and social outcomes.

This aligns with its aspiration to become a centr for sustainable finance.

As at June 2020, a total of 12 green Sukuks, two social bonds and three sustainable bonds had been issued in Malaysia. The revised SRI-Linked Sukuk Framework in 2022 further accelerated and broadened the product offerings toward sustainable development under Islamic Capital Market.

Bank Negara Malaysia (BNM) also contributes to a smooth transition to a low-carbon economy by creating an enabling environment for green financing and investment, ensuring the necessary frameworks and support systems are in place to encourage and facilitate sustainable finance activities.

BNM raises awareness and engagement among key stakeholders, including the financial industry and government agencies. The target of BNM is to increase at least 50 per cent of new financing for adaptation and transition activities by 2026.

Bank Negara Malaysia also contributes to a smooth transition to a low-carbon economy by creating an enabling environment for green financing and investment, ensuring the necessary frameworks and support systems are in place to encourage and facilitate sustainable finance activities. — AFP photo

Green finance has several advantages that go beyond environmental concerns. It is important in mitigating climate change by financing renewable energy projects and accelerating the transition to clean and resilient energy infrastructure. This includes investments in solar and wind power, which reduce carbon emissions and speed up the decarbonisation process.

It also supports to advance innovative technologies through research and development, fostering innovation in the renewable energy sector.

Additionally, it promotes the development of sustainable infrastructure projects, such as green buildings and efficient public transportation systems, resulting in lower resource consumption, lower emissions and improved community quality of life.

Moreover, green finance incorporates environmental risk analysis into investment decisions, allowing businesses to navigate climate challenges and make informed long-term sustainability decisions. It promotes resilient portfolios and better risk management practices by incorporating environmental factors.

From the social perspective, green finance supports projects that prioritise human well-being and social equity such as affordable housing, healthcare, education and clean water initiatives.

It directs capital to initiatives that benefit underserved communities, reduce inequalities and foster a more equitable society.

Furthermore, green finance promotes the growth of sustainable industries, thereby creating jobs and contributing to long-term economic prosperity.

Investing in renewable energy, clean technology, and sustainable agriculture stimulates innovation and entrepreneurship, while addressing environmental issues and driving economic growth.

Despite its enormous potential, green finance faces challenges such as a lack of standardised frameworks, limited public awareness and concerns about financial returns.

However, these challenges can be viewed as opportunities for government, financial institutions and civil societies to innovate and collaborate.

Governments can encourage the adoption of green finance practices by establishing regulatory frameworks, promoting transparency and creating an investment-friendly environment.

On the other hand, financial institutions can meet rising demands by providing a diverse range of green financial products and services while incorporating environmental, social and governance (ESG) considerations into their operations.

Sustainability considerations can also be incorporated into risk assessments and investment strategies.

In May 2023, Bursa Malaysia Bhd signed memoranda of collaboration (MoUs) with Mah Sing Group Bhd and Alliance Bank Malaysia Bhd to become early adopters of its Centralised Sustainability Intelligence Platform. This collaboration aims to speed up the adoption and integration of ESG practices among companies, leading to a more sustainable and resilient business environment.

Additionally, Mah Sing and Alliance Bank signed a collaboration agreement to create a financial ecosystem that would benefit from sustainable practices.

Investors, both institutional and individual, can drive change by demanding greater transparency and sustainability criteria, incentivising the financial sector to prioritise sustainability and contribute to the growth of green finance.

Furthermore, civil society organisations play a key role in raising public awareness and advocating for sustainable investment practices, thereby driving green finance adoption and creating support for sustainable development.

These stakeholders can overcome challenges and pave the way for a thriving green finance ecosystem by working together.

Green finance is emerging as a formidable catalyst for positive transformation amidst the pressing issues of climate change and environmental degradation. Green finance facilitates the transition to a greener, more sustainable and inclusive future by channelling financial resources towards environmental and social goals.

Green finance must be embraced by governments, businesses, investors, and individuals alike because it has the potential to drive sustainability and shape a greener world that benefits both current and future generations.

We can pave the way to a thriving future through collaborative efforts, innovative approaches and a collective commitment to sustainable development.

To conclude, green finance is all about using funds to support projects that help protect the environment and prevent climate change.

It entails investing in firms that use clean energy, such as solar or wind power, as well as projects that make our world more environmentally-friendly, such as green building or improved public transportation systems.

It also promotes firms to be more environmentally-friendly by providing funding and help.

To achieve all these goals, we need to be careful and smart about managing any risks to the environment or society.

Finally, we need to make sure we are responsible and accountable for how we use green finance for sustainable development in order to create a greener future for everyone.

>The opinions expressed in this article are the authors' own and do not reflect the view of Swinburne University of Technology Sarawak Campus. Dr Yii, Dr Tang and Ms Ngui are with the Faculty of Business, Design and Arts. They are contactable via KYii@swinburne.edu.my, mtang@swinburne.edu.my and lngui@swinburne.edu.my, respectively.