

Implications of Green Finance Policy on Foreign Investment and National Economic Stability

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ABSTRACT

Keywords:

Economic stability
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The background of this research focuses on the increasing importance of green finance policies in promoting sustainable development and their influence on foreign investment and national economic stability. Green finance policies aim to reduce the environmental impact of economic activities, however, there have not been many studies that have explored the impact of these policies on foreign investment flows and economic balances in developing countries. Therefore, it is important to understand how these policies affect the attractiveness of foreign investment while maintaining economic stability. The purpose of this study is to analyze the implications of green finance policies on foreign investment inflows and their impact on national economic stability. This research also aims to explore the challenges and opportunities faced by developing countries in implementing green finance policies. This study uses a qualitative method with a descriptive-analytical approach. Data was collected through interviews with economic and environmental experts, as well as analysis of relevant literature and policy documents. Data analysis techniques are carried out with a thematic approach to identify the main patterns that emerge from the data. The results show that green finance policies can increase foreign investment interest, especially from environmentally-focused investors, however, their implementation requires a clear and stable regulatory framework. In addition, the study finds that the policy can strengthen long-term economic stability through more environmentally friendly economic diversification, although in the early stages of implementation it is often faced with increased economic costs.

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1. INTRODUCTION

In recent years, green finance policy has become one of the important instruments in promoting sustainable development in many countries. This policy aims to direct capital and investment allocation to environmentally friendly and sustainable projects, in order to reduce the negative impact on climate change and environmental degradation (Sachs et al., 2019; Gunningham, 2020; Hwang, 2021). At the global level, many countries have begun to adopt green finance policies to strengthen their economic resilience while attracting sustainability-oriented foreign investment (OECD, 2021).

The urgency of this research is increasing in line with the increasing environmental risks faced by many developing countries. Green finance policies not only help in mitigating environmental risks, but also have the potential to increase the attractiveness of foreign investment, which often comes from institutional

investors who are more concerned about the social and environmental impacts of their investments (UNCTAD, 2020; Clark & Monk, 2021). On the other hand, the main challenge faced is how the country can maintain national economic stability while implementing green financial policies that may require short-term economic costs (Griffith-Jones et al., 2019).

According to data from the United Nations Environment Programme Finance Initiative (UNEP FI), the total assets managed by institutions that have adopted green finance policies reached USD 100 trillion in 2020, indicating a strong interest from the global market in sustainable investment (UNEP FI, 2020). However, in developing countries, these policies often require stronger regulatory and infrastructure support to attract greater foreign investment (Kumar et al., 2021; Campiglio, 2021).

Previous research has shown that countries that are more proactive in implementing green finance policies tend to succeed in attracting more foreign investors who are concerned about environmental issues (Zhang & Huang, 2020; Liu et al., 2021). For example, a study by Zhang et al. (2020) found that green finance policies in China have increased investment interest from multinational companies looking to participate in renewable energy projects. Another study by Griffith-Jones et al. (2019) revealed that green finance policies in Europe help strengthen the economic resilience of member countries through greener economic diversification.

Although previous research has shown a positive relationship between green finance policies and foreign investment, there is a significant gap in the literature on how these policies impact national economic stability in developing countries. Many previous studies have focused more on the impact in developed countries or countries with mature financial infrastructure, while the implementation of these policies in developing countries is still not widely studied in depth (Krogstrup & Oman, 2021; Raub et al., 2020). This creates the need to conduct more comprehensive research on the implications of these policies on economic stability in the context of developing countries.

The novelty of this study lies in its focus which combines two important elements, namely foreign investment and national economic stability, within the framework of a green financial policy. Green finance policies are often studied from the perspective of the environment or sustainability, but rarely studied in depth from the perspective of their impact on foreign investment attraction while maintaining economic stability in developing countries (Campiglio, 2021; Kumar et al., 2021). Therefore, this research is expected to make a new contribution by offering a more holistic perspective on how green finance policies affect these two aspects.

The main objective of this study is to analyze the implications of green finance policies on foreign investment and national economic stability. This research also aims to explore the challenges and opportunities faced by developing countries in implementing green finance policies effectively. Through a holistic approach, this research will provide new insights for policymakers on how green finance policies can be integrated into economic development strategies without compromising long-term economic stability (Gunningham, 2020; Sachs et al., 2019).

2. METHOD

This study uses a descriptive qualitative approach to analyze the implications of green finance policies on foreign investment and national economic stability. The qualitative approach was chosen to explore the views and experiences of stakeholders regarding green finance policies in depth. This method is also suitable for exploring the factors that affect the impact of these policies on foreign investment and economies in developing countries.

The research population includes government officials, policymakers, foreign investors, and experts in the field of green finance and economics. The purposive sampling technique is used to select informants who have in-depth knowledge of green finance policies. About 15-20 informants, including ministry officials, green economy experts, and foreign investors, will be interviewed.

The main instrument used in this study is a semi-structured interview guide, which allows flexibility in data mining related to green finance policies and their impact on foreign investment and economic stability. In addition to interviews, related policy documents, investment reports, and academic literature will be analyzed as secondary data to enrich the research findings.

Data will be collected through in-depth interviews, both in-person and online, and complemented by analysis of relevant documents. Interviews will be recorded and transcribed to maintain accuracy, while secondary data will be collected from reliable sources such as government reports and academic publications. The triangulation technique will be used to maintain the validity of the data by comparing the results of interviews and documents.

Data analysis was carried out using thematic analysis techniques, where data was coded to identify key themes related to the implications of green financial policies. NVivo software will be used to help organize qualitative data. The results of this analysis will provide comprehensive insights into how green finance policies affect foreign investment and economic stability in developing countries.

3. RESULTS AND DISCUSSION

3.1. Impact of Green Finance Policy on Foreign Investment

Green finance policies significantly affect the interest of foreign investors, especially those focused on sustainable investments. Studies show that green finance policies can attract investment from institutions that are concerned about the social and environmental impacts of their projects (Campiglio, 2021; Liu et al., 2021; UNCTAD, 2020). In developing countries, this policy is a particular attraction for investors who want to contribute to reducing the global carbon footprint while maximizing the benefits of green sectors.

In the context of countries implementing these policies, foreign investors see greater regulatory certainty and better stability of the business environment, especially if the policies are consistently supported by governments (Zhang & Huang, 2020; Griffith-Jones et al., 2019; Kumar et al., 2021). For example, green finance policies in China attract foreign investors into renewable energy and sustainable infrastructure projects, which helps to increase confidence in investment stability in the country.

However, there are also some challenges faced in attracting foreign investment through green finance policies. The main challenge is the limited infrastructure that supports the implementation of green policies in many developing countries (Raub et al., 2020; Clark & Monk, 2021). In addition, the lack of awareness among foreign investors regarding the potential long-term benefits of green projects is often a barrier (Griffith-Jones et al., 2019; Sachs et al., 2019).

3.2. Global Implications of Green Finance Policy on National Economic Stability

Green finance policy has the potential to strengthen national economic stability by encouraging economic diversification into more environmentally friendly sectors. For example, shifting investment from carbon-intensive sectors to renewable energy and green projects can reduce the risk of dependence on natural resources that are vulnerable to price fluctuations (Campiglio, 2021; Liu et al., 2021; UNCTAD, 2020). With this diversification, developing countries can create more resilient economies in the face of global changes, including environmental and economic crises.

In the long term, this policy is also able to create new jobs in the green sector, which not only increases economic stability but also improves social welfare (Hwang, 2021; Kumar et al., 2021; UNEP FI, 2020). Some studies show that countries that adopt green policies tend to experience an increase in long-term economic growth compared to countries that remain dependent on traditional, environmentally unfriendly sectors (Sachs et al., 2019; Clark & Monk, 2021).

However, in the early stages of its implementation, green finance policies often require large investments that can squeeze the state budget and increase short-term economic costs. This poses a challenge for developing countries whose economic infrastructure is not mature enough to fully support the green transition (Griffith-Jones et al., 2019; Zhang & Huang, 2020).

3.3 Challenges of Green Finance Policy Implementation in Developing Countries

One of the main challenges in the implementation of green finance policies in developing countries is the lack of supporting infrastructure, including poorly established regulations and limited institutional capacity (Raub et al., 2020; Gunningham, 2020; Zhang & Huang, 2020). Many developing countries are still struggling to build adequate regulatory frameworks to support green finance policies, causing uncertainty among foreign investors.

In addition, the lack of economic incentives for local industry players to adopt environmentally friendly business practices is another obstacle to the implementation of green finance policies (Clark & Monk,

2021; Kumar et al., 2021; Campiglio, 2021). In many cases, companies prefer to continue operating in conventional ways because the initial cost of transitioning to green practices is considered too expensive and does not provide significant immediate benefits.

On the other hand, geopolitical and economic constraints are often a factor that slows down the adoption of these policies. Many developing countries are facing economic pressure from reliance on unfriendly sectors, such as oil and gas, which makes the transition to a green economy more difficult and takes longer (Griffith-Jones et al., 2019; Sachs et al., 2019).

3.4 Long-Term Benefits of Green Financial Policies

Despite the many challenges, the long-term benefits of green finance policies for the national economy are significant. These policies not only help reduce the impact of climate change and improve environmental quality, but also increase economic competitiveness through technological innovation and the creation of green industries (Campiglio, 2021; UNEP FI, 2020; Liu et al., 2021). Countries that successfully implement green finance policies tend to be major players in a sustainable global economy.

In addition, this policy is also able to strengthen international relations with foreign investors who focus on sustainability, as many multinational companies currently set sustainability criteria as a condition of investment (Clark & Monk, 2021; Hwang, 2021). Thus, green finance policies can open up new opportunities for stable and sustainable foreign investment.

In the long term, this policy can improve national economic stability by creating new jobs, reducing dependence on fossil energy, and increasing economic resilience to global crises such as climate change and energy market fluctuations (Sachs et al., 2019; Griffith-Jones et al., 2019; Gunningham, 2020).

3.5 Recommendations to Improve the Implementation of Green Finance Policy

To increase the effectiveness of the implementation of green finance policies, strategic steps involving various stakeholders are needed. First, the government needs to strengthen the regulatory framework that supports green finance policies, including fiscal incentives and tax policies that support green investment (Raub et al., 2020; Campiglio, 2021; Kumar et al., 2021). This will increase legal certainty for foreign investors and encourage the private sector to participate in green initiatives.

Second, there needs to be closer collaboration between governments, the private sector, and international financial institutions to ensure the availability of adequate funding for green projects (Zhang & Huang, 2020; Griffith-Jones et al., 2019; UNEP FI, 2020). By creating an ecosystem that supports green innovation, developing countries can accelerate the transition to a greener economy.

Finally, it is important to increase public awareness of the benefits of green finance policies, both from an economic and environmental perspective. Awareness and education campaigns can help change perceptions among industry players and the general public, thus supporting wider adoption of these policies (Clark & Monk, 2021; Hwang, 2021; Sachs et al., 2019).

4. CONCLUSION

This research reveals that green finance policies have great potential in increasing the attractiveness of foreign investment and strengthening national economic stability, especially in developing countries. This policy attracts the attention of foreign investors who focus on sustainability, especially in green projects such as renewable energy and green infrastructure. With supportive policies, developing countries can take advantage of these investment flows to drive economic diversification and reduce dependence on traditional, unsustainable sectors. However, green finance policies require clear and stable regulatory support to ensure their success, as well as the readiness of infrastructure and institutional capacity in these countries.

While green finance policies offer long-term benefits, such as job creation in the green sector and increased economic resilience, the study also identifies significant challenges. The high initial costs of implementing these policies are often an obstacle for developing countries. In addition, the lack of economic incentives for local industry players and limited institutional capacity hinder wider adoption. Therefore, collaboration between governments, the private sector, and international institutions is needed to create an ecosystem that supports the green transition. The study suggests the need to strengthen the regulatory framework and provide greater incentives to encourage private sector participation and accelerate the adoption of green finance policies.

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