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Green Finance and Economic Growth: A Systematic Literature Review of Policy Interventions in Emerging Markets

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Abstract

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Amid rising climate risks and financial pressures, emerging market economies (EMEs) are increasingly turning to green finance to stimulate sustainable economic growth. This study systematically reviews existing literature to examine how various policy instruments such as green credit schemes, disclosure mandates, tax incentives, and blended finance affect macroeconomic outcomes in EMEs. Through a systematic literature review of peer-reviewed studies published up to 2021, the article synthesizes findings across diverse regional contexts. The analysis reveals that while green credit policies in countries like China are well documented, comparative cross-country evaluations remain limited. The review finds that policy interventions significantly influence innovation, investment, and growth, yet methodological inconsistencies and geographic biases persist. These gaps highlight the need for harmonized frameworks and deeper comparative research to enhance the effectiveness of green finance in driving inclusive development.

1. Introduction

The global movement toward sustainable economic growth increasingly relies on green finance financial instruments and policy frameworks that channel capital into clean energy, low-carbon infrastructure, and environmentally aligned innovation. In emerging market economies (EMEs), mechanisms such as green bonds, green credit programmes, and sustainability-linked loans can be effective development tools when accompanied by supportive policy interventions, including disclosure mandates, fiscal incentives, and blended finance schemes (Otek Ntsama et al., 2021).

To understand this dynamic, Otek Ntsama et al. (2021) deliver a comprehensive analysis of green bond issuance in low- and middle-income countries. They underline how green bond markets have grown and the broad range of economic, social, and institutional benefits associated with them, albeit with significant variation in regulatory maturity and market capacity across countries.

Meanwhile, focusing specifically on China's green credit policy, Wang et al. (2021) provide empirical evidence demonstrating how preferential lending standards promote both environmental performance and firm-level investment efficiency. Their quasi-experimental research found that green credit policies effectively reallocate capital away from polluting industries, thus facilitating cleaner economic development without compromising growth objectives.

Despite these individual studies, systematic syntheses exploring how policy instruments shape the macroeconomic outcomes of green finance in EMEs remain scarce. Most research has focused on regional or firm-level impacts, with few studies offering a cross-country view of how tools such as ESG disclosure mandates, tax incentives, blended finance, and regulatory frameworks influence broader economic metrics.

This article addresses that gap by conducting a systematic literature review of peer-reviewed and policy-oriented studies published through 2021. It examines how various policy interventions affect the efficacy of green finance tools such as green bonds and green credit programmes in driving macroeconomic outcomes, including GDP growth, investment inflows, innovation capacities, and financial risk mitigation across emerging market contexts.

Specifically, the review considers which policy instruments such as disclosure mandates, tax incentives, fiscal support mechanisms, or blended finance models are most consistently linked to positive economic outcomes from green finance in EMEs. It also investigates the mechanisms through which these interventions influence the relationship between green finance tools and macroeconomic indicators across diverse settings. Finally, the review identifies methodological, regional, or thematic gaps in the literature and outlines implications for future research and policy design. By synthesizing cross-country evidence, this study clarifies the critical policy architecture required to maximize the developmental potential of green finance in emerging economies.

2. Literature Review

2.1. Expansion of Green Finance and Institutional Barriers

Across emerging market economies, green finance instruments including green bonds, green credit schemes, and sustainability-linked loans have witnessed rising adoption, propelled by global climate agendas and development ambitions. Taghizadeh-Hesary and Yoshino (2020) highlight that while renewable energy finance is expanding, institutional and regulatory constraints such as limited market infrastructure and weak transparency impede broader adoption in EMEs. Complementarily, Otek Ntsama et al. (2021) document substantial disparities in green bond markets: regulatory readiness, issuance capacity, and investor trust vary widely across low- and middle-income countries, undermining scalability and effectiveness.

2.2. Policy Intervention in China's Green Credit Guidelines

China's Green Credit Policy, implemented starting in 2012, offers a key example of policy-directed finance reform in EMEs. Chen et al. (2021) reports that green credit significantly and positively contributes to sustainable economic growth through mechanisms including industrial upgrading and stronger environmental regulations. Their analysis across provinces shows that green credit helps drive structural transformation and enhances economic performance in regions embracing the policy.

Another study by Ling et al. (2020) explores firm-level outcomes using a difference-in-differences approach, finding that while credit restrictions on polluting firms reduced R&D spending, the policy also incentivized innovation among greener enterprises highlighting the nuanced and mixed effects of tight credit regulation.

These findings underscore that green credit interventions can reshape financing landscapes, yielding both environmental and economic trade-offs depending on firm and sectoral contexts.

2.3 Policy Enablers Including Disclosure Mandates and Blended Finance

Beyond credit policies, other policy levers significantly influence the performance of green finance in emerging market economies (EMEs). Disclosure mandates, for instance, play a crucial role in enhancing transparency, reducing information asymmetry, and fostering investor confidence. Although their effectiveness has been widely documented in advanced economies, robust comparative analysis of their impact within EMEs remains limited. In addition, blended finance mechanisms where public or donor capital is used to de-risk private investments—are increasingly promoted by development institutions to attract private sector funding into green sectors. According to the OECD/UNCDF (2020), blended finance mechanisms—such as using public or concessional capital to de-risk private investment—are particularly effective in markets with underdeveloped financial systems. Although empirical evidence in the context of emerging markets remains limited, early findings indicate that such instruments can play a pivotal role in mobilizing private capital toward sustainable development, especially in resource-constrained or high-risk environments.

2.4 Literature Gaps in Comparative and Systematic Syntheses

While the existing literature provides a wealth of case study evidence particularly from China, systematic cross-country analyses remain limited. One prominent gap is the lack of comparative reviews that evaluate how specific policy instruments, such as disclosure regimes, tax incentives, blended finance arrangements, and green credit guidelines, influence macroeconomic indicators like GDP growth, innovation, and investment across emerging market economies (EMEs). Additionally, methodological and regional inconsistencies further complicate the synthesis of findings. Many studies are heavily concentrated in China or Southeast Asia and employ diverse empirical approaches ranging from difference-in-differences (DID) designs and panel regressions to qualitative assessments while categorizing policy interventions inconsistently. These variations hinder generalizability and weaken the formulation of universally applicable conclusions. This systematic literature review seeks to address these gaps by synthesizing peer-reviewed studies published up to 2021, with a particular focus on understanding how specific policy interventions shape the effectiveness of green finance tools across varied emerging market contexts.

3. Methods

This study employs a systematic literature review (SLR) to explore how policy interventions in green finance affect economic growth in emerging market economies (EMEs). The SLR method ensures a transparent and structured approach to identifying, selecting, and analyzing relevant academic studies, following guidelines outlined by Wainwright et al. (2018) and Snyder (2019). The review focuses on peer-reviewed journal articles published in English up to year 2021, retrieved from three major academic databases: Scopus, Web of Science, and Google Scholar. Keyword combinations used include terms such as "green finance", "policy", "economic growth", and "emerging markets". Articles were included if they examined green finance policy instruments such as green credit, green bonds, disclosure mandates, or blended finance and their relationship to macroeconomic outcomes like GDP growth, innovation, or investment in EMEs. Studies focusing solely on developed countries, lacking methodological clarity, or unrelated to economic implications were excluded. Each article was examined for type of policy instrument, economic indicators studied, country or regional focus, and methodological approach. The findings were then synthesized thematically to identify common trends, gaps, and implications for future research and policy design.

4. Results and Discussion

This systematic literature review examined peer-reviewed studies to identify how specific policy tools such as green credit policies, environmental disclosure mandates, and blended finance shape green finance outcomes in emerging market economies (EMEs). Overall, the findings confirm that while green finance policies can positively influence environmental and economic performance, their success is highly dependent on local institutional contexts, financial infrastructure, and enforcement capacity.

Green credit policies emerged as one of the most frequently studied tools. Zhang et al. (2021) employed a difference-in-differences (DID) approach using firm- and province-level panel data in China, showing that the Green Credit Policy (GCP) significantly reduced emissions of sulfur dioxide and wastewater in targeted sectors. The policy worked more effectively in regions with robust financial systems and among state-owned enterprises, indicating that institutional strength amplifies the policy's impact. Ling et al. (2020) further emphasized that GCPs encourage technological innovation by limiting access to credit for pollution-intensive firms, creating incentives for greener business models and investment in environmental R&D.

Environmental disclosure mandates are another critical lever. Gerged (2021) analyzed firms in Jordan and found that stronger corporate governance—particularly board independence and foreign ownership—positively influences the level of environmental disclosure. These disclosures not only improve transparency but also reduce information asymmetry, leading to more efficient capital allocation in green sectors. However, many EMEs still lack standardized disclosure frameworks and enforcement mechanisms, limiting the effectiveness of such mandates. This highlights the need for capacity building and regulatory harmonization to support disclosure-based reforms.

Blended finance strategies, which combine public and private funding to reduce investment risk, are gaining traction but remain under-researched. The OECD/UNCDF (2020) stresses that blended finance is essential for mobilizing private capital in high-risk green sectors, particularly in EMEs with shallow financial markets. While case studies suggest their potential, few studies offer rigorous empirical evaluation of their macroeconomic or environmental impacts. The limited data available underscores the importance of further research on the effectiveness and scalability of blended financial models in different institutional settings.

Geographically, the literature is heavily concentrated in East Asia, particularly China, with limited coverage of Latin America, Sub-Saharan Africa, and South Asia. Methodologically, most studies employ quantitative approaches such as panel regressions and DID models. However, there is considerable variation in policy definitions and outcome measures, making cross-country comparisons challenging. This heterogeneity reveals a significant gap in systematic, comparative evaluations of how green finance policy instruments perform under diverse socioeconomic and institutional conditions.

In summary, the reviewed literature confirms that green finance policies when well-designed and supported by strong institutions can drive environmental improvements, stimulate innovation, and enhance investment in sustainable sectors. However, policy effectiveness is not universal and often depends on complementary factors such as financial market development, corporate governance, and regulatory enforcement. The diversity in policy implementation and evaluation approaches across EMEs also highlights the need for more integrative and comparative research to guide future policymaking.

5. Conclusion

This systematic literature review synthesized peer-reviewed research up to 2021 to evaluate how policy interventions particularly in green credit policies, environmental disclosure mandates, and blended finance mechanisms affect the effectiveness of green finance initiatives in emerging market economies (EMEs). The evidence indicates that targeted policy tools can significantly enhance the environmental and economic outcomes of green finance when supported by strong institutional frameworks, sound regulatory design, and adequate financial infrastructure.

Green credit policies, such as those implemented in China, have been shown to influence firm behavior by encouraging green innovation and reducing pollution levels in environmentally sensitive industries. Disclosure mandates increase transparency and help reduce information asymmetries in the market, though their effectiveness is constrained in jurisdictions lacking robust enforcement and standardized reporting norms. Blended finance strategies offer promise in mobilizing private investment into green sectors, especially in countries with limited public financing capacity, but empirical evaluations remain scarce.

The review also identified notable gaps in the literature. Most studies are country-specific, with a disproportionate focus on China, limiting broader generalizability. There is also a lack of consistent methodologies, standardized outcome metrics, and cross-country comparative analyses. These limitations suggest the need for more integrative research efforts to evaluate green finance policy effectiveness in a diverse range of emerging economies.

In conclusion, while the green finance policy landscape in EMEs is evolving rapidly, its long-term success depends on evidence-based policymaking, stronger international cooperation, and sustained investment in institutional and regulatory capacity. Future research should prioritize comparative studies and explore underrepresented regions and policy tools to provide a more holistic understanding of how green finance can support inclusive and sustainable economic growth in the developing world.

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