



Impact of ESG-Linked Investment Banking on Employment Generation and Poverty Reduction in Emerging Economies

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Abstract

In this study, we look at the transformative role of ESG-based investment banking in employment generation and poverty reduction in developing country settings. There, as nations with high investment needs are having to battle the double battle of industrialization and climate crisis, banks are moving to “purpose-driven” capital allocation to plug short funding. Given the recent empirical research (2023 to 2025), we explore two principal ways: a correlation of ESG investment fund flows and job creation, and the role played by the pillar that is socially based for multidimensional poverty solving. We find that there is a high level of positive correlation (r) for economic activity in SME and renewable energy sectors for green bond issuance, leading to a lot of formal employment at its start. Despite the challenges of standardized reporting and initial compliance expenses, this study shows that ESG-integrated banking is a key enabler of inclusive growth. Investment banking can't exist as a long term profit industry alone; a stable economy and poor countries alone means investment banking needs to connect and support the Global South economy for the longer run, sustainable finance and investment banking (Investing in the Sustainable Community) in order to lead them into this direction in every aspect of the globalization.

Keywords: ESG Investing, Sustainable Finance, Investment Banking, Employment Generation, Poverty Reduction, Emerging Economies.

1. Introduction

Using Environmental, Social, and Governance (ESG) criteria as core considerations in investment banking is one of them, as it is a paradigm shift in the way capital is allocated today as it has been with international investors. Rather than an object of a sectoral focus in corporate social contributions, for a country with a huge demand for industrial growth, as an end in itself with such a high degree of climate resilience and social equity for instance, ESG-enabled finance is now recognized as an undercurrent (Jain & Gupta, 2025). Financial intermediaries have never been as important, when global organizations have to raise investment capital in developing countries but also local economies in them, as they have for the time been dealing with it. It is anticipated that the institution in question will be in good faith to identify both, or in principle to adopt a global business model to enable its underwriting,

syndication and advisory services to advance the goals of SDGs (Goal 1 (No Poverty) and Goal 8 (Decent Work and Economic Growth)—the “purpose-driven” basis of investment banking (Oanh, 2024; Zhou et al., 2023). The job creation impact of this development is largely driven by financing expansion into high growth and sustainable sectors. In emerging markets, ESG-backed practices give the businesses with the ESG standards the confidence to use them and thus reduce information asymmetry and bring an effective level of cost of capital to companies that are the greatest in terms of ethical standards (Daud & Ahmad, 2023). This enables banks to meet the challenges of providing financing for SMEs (Small and Medium-sized Enterprises and small-sized industries that make up the bulk of employment but also occupy the credit gap) because of the strong social- and environmental-policy-led institutions which can be a business to them - hence these companies will eventually become high level companies (Fu & Huang, 2023; Jain &



Gupta, 2025). ESG-oriented firms also have lower total factor productivity (TFP) as they tend to invest money in their R&D and in better efficient resource use to create competitive labor markets and hence are more sustainable (Fu & Huang, 2023). On the other, one key Social pillar of ESG-connected investment banking is a primary mechanism for poverty reduction to reduce inequalities and biases in financial inclusion by incentivising infrastructure investments, digital connections (CD and medical access) through investment banks to be part of the institutionalization of the financial system (Daud & Ahmad, 2023). Such rigorous social impacts analysis ensures that the funds of projects will create more than just wealth but also bring prosperity to the most vulnerable economically (Wang et al., 2022). Some critics have suggested that ESG-related systems may be more onerous on financial institutions in developing countries (Jain & Gupta, 2025) [5]. Yet the long-term empirical evidence, which supports such policies, shows that they reduce systemic uncertainty and economies can sustain them more effectively if economies become less susceptible to the vicious cycle of boom and bust which tend to pull people back from this cycle (Krishna et al., 2024). The intersection of ESG-based banking and macroeconomic stability is a structured path for sustainable growth. By embedding ethical considerations in capital flow, investment banks in emerging countries are not only transforming to structural and systemic players in the financial world now, but are also making great social impact and helping build a global society via social transformation (Zhou et al., 2023). Transparency and

accountability in ESG will reduce labor exploitation and human capital investment and ensure employment to be excellent across time, both through investment and in the long-term development of businesses and finance (Jain & Gupta, 2025). There is increasing investor interest to improve global levels of ESG governance (Krishna et al., 2024; Oanh, 2024).

2. Objectives of the Study

- To identify the correlation between ESG-driven investment banking flows and formal employment generation in crucial emerging business sectors.
- To assess successful use of the "Social" pillar in ESG structures for overcoming multidimensional poverty.

The correlation between ESG-enabled investment banking flows and the level of formal job creation in key emerging sectors at the sector level [6]. To analyze the relationship between ESG-related investment banking flows and real employment, the recent studies in panel data and regression based models also study how "green" capital impacts labor market production. In emerging markets, the relationship tends to be positive and statistically significant, but in sectors and the financial system of these countries it depends positively or not. Table summarizes the key findings of previous studies (2023–2025) across emerging economies shown in table 1 [7].

Table 1 Correlation between ESG Inflows and Employment Generation

Sector / Inflow Category	Primary ESG Instrument	Employment Impact / Statistic	Correlation Coefficient (ρ) / Significance (β)	Context / Region
Renewable Energy	Green Bonds & Project Finance	1 Million+ jobs directly created in the renewable sector.	$\rho \approx 0.65$ (Strong correlation with SDG 8)	India (2024)
High-Tech / Green Tech	ESG-linked Private Equity	4.2% annual growth in "green" formal employment.	$\beta = 0.12$ ($p < 0.01$) (High significance)	E7 Economies
General Economic Growth	Green Finance Index (GFI)	0.09% GDP growth for every 1% increase in GFI.	$\beta = 0.08$ ($p = 0.036$) (Significant)	Emerging Markets (Global)
SMEs / Financial Inclusion	Sustainability-Linked Loans (SLLs)	60% growth in SLL market facilitating SME scaling.	$r = 0.42$ (Moderate positive correlation)	ASEAN-5



Sustainable Agriculture	Impact Bonds / Multilateral Credit	15% increase in rural formalization rates.	$\beta=0.054$ (Significant at 5% level)	Latin America & Africa
Corporate ESG Leaders	ESG-integrated Equity Inflows	5.1% outperformance leading to higher labor retention.	$\rho=0.38$ (Weak to moderate positive)	Asia-Pacific (EM)

3. Statistical Analysis and Mechanisms

The 'Green Jobs effect' of investment banking flows takes place through three key economic pathways in economics:

- **Production Scale Expansion:** Large ESG scores are very helpful in terms of reducing cost (as shown in the positive relation to risk premia) and expand the physical operations and workforce capacity of an organization to do business at high levels at the most affordable price (Huang et al., 2025).
- **Innovation intensity:** The correlation between engagement and investment is very good and a strong source of the correlation between ESG performance and the R&D investment is excellent in the emerging markets. Indeed one increase in all unit scores in ESG scores is a direct correlation to a high-skilled job opportunity in developing countries for green jobs (Fu & Huang, 2023) [2].
- **The quality signal which institutional capital convey:** The Social "Signal" effect. Formal sector businesses who receive ESG-supported banking inflow have a 22% lower staff turnover rate, evidencing a good and reliable quality of

formal job quality and stable job market (Jain & Gupta, 2025).

The efficacy of the "Social" pillar in ESG frameworks as an accelerator to reduction of multidimensional poverty is determined by its ability to tackle the non-monetary shortages - that is, lack of healthcare, education, and basic infrastructure - that are the most important factors that contribute to multidimensional poverty and which must be addressed in ESG frames. In emerging economies [4], the use of Social-linked financial solutions (Social Bonds and Sustainability-Linked Loans) can be more common. Whilst environmental (E) investments (MDPI 2025, E), which result in large short-term investment cost, that of social (S) will in turn be significant and could actually assist in building communities to resilience if social (S) finance is part of the equation to make investments in social safety net of the country (World Bank, 2026), this approach will have a long-run impact.

4. Impact of ESG Social Pillar on Multidimensional Poverty Indicators

The following table synthesizes the efficacy of social pillar interventions across key dimensions of the Global Multidimensional Poverty Index (MPI) shown in table 2.

Table 2 Social Pillar ESG Dimensions and Their Impact on Poverty Reduction Outcomes

Social Pillar Dimension	Mechanism of Action	Efficacy Statistic / Outcome	Poverty Reduction Impact	Source Context
Financial Inclusion	Credit access for marginalized groups (fishermen, street vendors)	60% growth in microenterprise loan portfolios.	High: Reduces income volatility for the "bottom 40%."	India SACCO Study (2025)
Labor Standards	Implementation of fair wage and safety protocols	22% reduction in employee turnover rates.	Moderate: Improves long-term household income stability.	Jain & Gupta (2025)
Health & Nutrition	Investment in rural healthcare	12% decrease in child mortality in funded	High: Directly addresses "Health" deprivation in	World Bank (2026)



	infrastructure	regions.	MPI.	
Education & Skills	Funding for vocational training and R&D	$\beta=0.12$ (Significance $p < 0.01$) for TFP growth.	Moderate: Breaks cycles of intergenerational poverty.	E7 Emerging Markets (2023)
Community Infrastructure	Provision of clean water and sanitation (WASH)	82% of poor people in high-hazard areas benefit from resilient infra.	Very High: Mitigates "Living Standards" deprivation.	UNDP-OPHI MPI (2025)
Human Rights	Supply chain auditing and child labor bans	15% increase in formal school enrollment rates.	High: Aligns corporate activity with SDG 1 & 4.	Latin America Analysis (2024)

4.1. Analysis of Efficacy

Direct vs. Indirect impact: The role of "Social" pillar is a double dividend mechanism. Directly, it finance essential services such as water and health (e.g. for example). Indirectly, it leads to higher social capital (trust and institutional power in a community) [3] which is associated with poverty reduction by $r = 0.6$ (PMC, 2025). According to this study of 2025, a total of 1.1 billion people, which makes you think of this double burden, are suffering severe multidimensional poverty which has a 72% exposure to climate hazards. By integrating climate resiliency with social safety nets as

sustainable and sustainable, ESG social investments are very effective in their prevention of poverty in households when the threat of climate is brought down on them from outside of the household (UNDP, 2025)? That is to say, due to the majority of poor being employed by SMEs, a credit card made from an ESG-based model that requires a social report (diversity and fair pay from diverse and local sources), we can achieve not just the benefit of the middle class but also inclusive economic development (Daud & Ahmad, 2023) shown in table 3 [1].

Table 3 Summary of Research Findings

Key Metric	ESG Impact Observed	Strategic Outcome
Employment	$\beta = 0.12$ significance in TFP-driven job growth.	Shift toward high-skill "green" jobs.
Poverty	60% increase in financial inclusion for bottom 40%.	Reduction in multidimensional poverty (MPI).
Stability	22% reduction in labor turnover/volatility.	Enhanced household income security.

Conclusion

There is no longer just a regulatory shift towards ESG-linked investment banking in developing markets but also toward a structural move of capital to generate economic productivity and social resilience. This kind of change is the first step toward embedding environmental and social protections in international finance systems for the most effective integration of these nations, in

which countries are increasingly drawing distinction between both business activities and environmental protection as well as structural inequality, a reality. Most studies have found out: The Environmental and Governance pillars drive formal employment in these economies through the reduced cost of capital for high growth sectors and small and medium businesses (Fu & Huang, 2023) and through the Social pillar which



is also a simple platform for poverty reduction in which every sector's vulnerability to disease (medical conditions/low wages as far as the poor can be seen in the present economy is concerned and not simply for GDP growth (Daud & Ahmad, 2023; World Bank, 2026). The continued transition from global accounting standards to ESG compliance has made the issue of ESG investment banks with international bodies more fundamental and much more important since they don't have a very standardized set of controls to follow in order to maintain the sustainability of an ecosystem over what is more easily detected in other forms of finance as well as that with less access to good treatment in other people in which ESG is not taken to be made it, and this is where long term for companies to report in order to bring ESG compliance to scale and more and less of the macroeconomic stability in a better level of sustainability. Investment banks on the whole may then evolve not into "tick-box compliance" bankers, but as true social entrepreneurs, they have to go all in, to make the impact on the social good from a global perspective, to sustain and create jobs. When financial intermediaries are about an inclusive growth model they not just create jobs but are building a tough middle class and strong economy which can sustain themselves through the uncertainty of our global time.

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Note: For a full 2-page academic spread, additional sections such as "Theoretical Framework," "Literature Review," and "Regional Case Studies" would follow this introduction.