International Journal of Social Science and Economic Research

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

EMERGENT VALUES IN EMERGING MARKETS: SUSTAINABLE FINANCE FOR PROFIT AND PROGRESS

Raihan Chadha

Taunton School, United Kingdom

DOI: 10.46609/IJSSER.2023.v08i09.026 URL: https://doi.org/10.46609/IJSSER.2023.v08i09.026

Received: 10 September 2023 / Accepted: 27 September 2023 / Published: 30 September 2023

ABSTRACT

The global finance industry is under growing pressure to be more sustainable and open about its economic, social, and environmental implications. The notion of sustainable development touches every aspect of this financial life making finance crucial in hastening the transition to a more sustainable economy and society. Sustainable finance is becoming a major concern in both established and emerging economies' financial sectors. The core concept of sustainable finance is that finance should contribute to sustainability while remaining profitable. Several causes have contributed to the shift towards sustainable finance, including the necessity for finance to contribute to environmental sustainability, natural resource depletion, and wealth disparity. This paper will delve into the causes, and benefits of sustainable finance while also tackling the challenges that hinder it from achieving profit alongside sustainable progress.

Keywords: Sustainable Development Goals, Financial sector, Environment, Inclusiveness

1. Introduction

The 2030 Agenda for Sustainable Development (Agenda 2030) includes 17 unified and interconnected Sustainable Development Goals (SDGs). SDGs, in general, relate to acts and policies aimed at mitigating the adverse impacts of human activity, with a focus on social inclusiveness, ecological inclusiveness, and relational inclusiveness. To implement these SDGs, financing is essential (Ziolo, Bak & Cheba, 2020). However, the contradiction between adjusting to a carbon-neutral global economy while limiting energy prices, preserving economic development, and generating employment is today's major problem for governments throughout the world. The difficulties are considerably more severe and pressing in emerging nations, where education levels are usually lower, financial markets are shallower, and labor is less flexible (Goel, Gautam & Natalucci, 2022). Finance had lost sight of its instrumental role in the two decades preceding the crisis, and is still mainly regarded as an instrument simple to make ends

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

meet. As a result, public perception is shifting away from finance as a tool for growth and towards it as a means of appropriating money and riches. At the same time, global pollution, climate change, and the unsustainable use of resources beyond their reproductive potential are becoming increasingly visible and concerning challenges. Sustainable Finance, in this case, becomes a way to define both non-predatory finances focused on value creation rather than value extraction, and finance targeted at encouraging long-term sustainable development (Goglio & Catturani, 2019). Sustainable finance explores the interactions of finance with economic, social, and environmental challenges (Schoenmaker, 2017). Finance, in its allocation function, may help make strategic judgments about trade-offs between sustainable goals. Sustainable Finance here is crucial to hastening the transition to a more sustainable economy and society. Significant new expenditures in clean energy infrastructure, for example, are required to fulfill rising energy consumption and address the problem of climate change. Green bonds and index-linked carbon bonds, for example, might assist in accelerating the transition to a low-carbon economy (Kerste et al., 2011). This in turn makes sustainable finance essential for the sustenance of a just and green economy. It is also important to understand the fallacies of employing traditional or conventional finance to approach sustainability. Because the three-dimensional viewpoint of sustainable development is not taken into account, conventional finance is insufficient and unsuited for financing SDGs. Traditional financial systems must become more ecological in order to transition from carbon-high to carbon-low economies (Fullwiler, 2015). As aforementioned, for the implementation of SDGs, the financing of businesses, organizations, and economies has to be more sustainable. With sustainable finance, there are more opportunities to invest in green ventures that take their social responsibility as a priority. The financial sector, and particularly institutional investors, have begun to include environmental, social, and governance (ESG) considerations and the UN SDGs into their valuation and portfolio management processes. As a result, the industry is recognizing that firms that actively manage important ESG characteristics are not only better at reducing their risk exposure but also building more sustainable futures, with both dimensions leveraging each other to improve values (Leleux & Kaaij, 2019).

Sustainability will touch practically every profession in the financial sector, whether as a social issue, an inspirational vision, a commercial opportunity, or a way of thinking. The shift to a more sustainable economy is only achievable if large investment flows are directed towards it. Risk and return are important considerations in the funding of sustainable initiatives, just as they are in any other investment choice (Kerste et al., 2011). Having addressed the need for sustainable finance in today's world, this paper will delve into the challenges and benefits of moving towards sustainable finance alongside examples of case studies, statistics, and more.

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

2. Background

The emergence of sustainable finance represents a significant paradigm shift in the world of finance, reflecting a growing recognition of environmental, social, and governance considerations alongside traditional financial metrics. Although this change started to emerge in the late 20th century, it really took off in the early 21st century. The adoption of the SDGs in September 2015, followed by the Paris Agreement in December of that year in the United Nations Framework Convention on Climate Change (UNFCCC), marked the international community's commitment to the sustainability of human activities and the fight against climate change. Since then, politicians and scientists have focused on ways to generate a holistic and sustainable economy. In this regard, both governments and international organizations have repeatedly emphasized the importance of financing in facilitating the transition (Migliorelli & Dessertine, 2019). This transformation has been fueled by numerous factors. The idea that natural resources are finite and that some byproducts of mass manufacturing methods are extremely harmful to both humanity and the natural environment was not widely accepted until recently. Capitalism and contemporary finance may be viewed as a successful system and an efficient way of igniting nations' economic potential regardless of their environmental effects. Global warming and the rising frequency of climate-related extreme weather events (such as droughts, floods, and storms) have served as a wake-up call to the limits of any economic model that does not include environmental protection as one of its foundations (Migliorelli & Dessertine, 2019). Businesses and investors have been forced to rethink their involvement in tackling these issues as a result of increased awareness of urgent global crises including climate change, resource scarcity, and social inequality. Entrepreneurship has been identified as a significant conduit for sustainable goods and processes, and new businesses are seen as a solution to a variety of social and environmental issues (Tafsir, 2021). Many firms in emerging economies are benefiting from sustainable finance in adapting and promoting sustainable development by incorporating strong environmental practices, and social and economic growth (Cowe, 2002). Furthermore, regulatory bodies worldwide have introduced policies and disclosure requirements that encourage sustainable practices and transparency. The introduction of sustainable finance legislation raises fascinating problems that reflect wider discussions about finance's role in society, particularly the beneficial or harmful interplay between the profit-maximizing aims that drive the financial (Ahlström & Monciardini, 2021). Simultaneously, investors have increasingly sought investments that align with their values, and evidence has emerged demonstrating that sustainable investments can deliver competitive financial returns. For instance, venture capitalists play an important role in the development of firms because they may help start-ups expand quickly, create more value, and produce more employment and innovation. They have an impact on entrepreneurship by serving as 'scouts,' finding and choosing

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

future potential, and as 'coaches,' assisting in the realization of their sustainable potential (Bocken, 2015).

By combining these financial resources, sustainable finance will be able to achieve profit and progress. These elements, fulfill the major objective which is to deploy financial resources for the most productive use, which in turn can assist in making strategic decisions relating to the achievement of sustainable development goals (Štreimikienė, Mikalauskienė, & Burbaitė, 2023).

3. Discussion

Most institutions, governmental and corporate, emphasize the need to incorporate environmental, social, and corporate governance considerations into decision-making processes in order to minimize ESG risks. However, there is still a gap between sustainable development and many financial markets, and the main difference is that the perspective of sustainable development is multiple and holistic, whereas the financial sector aims at a one-dimensional goal, namely to maximize financial profit (Pisano, Martinuzzi & Bruckner, 2012). These concerns usually come up with approaching sustainability through traditional financing. Sustainable finance and traditional finance differ fundamentally in their approach and objectives, particularly in their ESG impacts. Traditional finance primarily seeks to maximize financial returns without explicitly considering the broader societal and environmental consequences of investments. This makes conventional finance insufficient and unsuitable for financing SDGs since it does not take into account the three-dimensional vision of sustainable development, leaving little room for environmental and social challenges (Ziolo, Bak & Cheba, 2021). In contrast, sustainable finance integrates ESG factors into company choices, economic development, and investment strategies, with the goal of generating positive impacts alongside financial gains (Goel, Gautam & Natalucci, 2022). It propagates a three-dimensional approach toward sustainability, unlike conventional financing which allows firms to operate in a less sustainable manner. For instance, traditional finance pays less head when it comes to commercial loans for fracking, coal, and Arctic drilling, while sustainable finance favors renewable energy projects that reduce carbon emissions and combat climate change. An example of the prioritization of sustainable finance can be seen through the recent introduction of Article 173 of the French Energy Transition for Green Growth Act which provides steps to integrate climate change into financial organizations' decision-making processes (Ahlström & Monciardini, 2021).

Whilst there are many advantages to adopting sustainable financial practices in emerging markets the shift hasn’t come easy. The contradiction between adjusting to a carbon-neutral global economy while limiting energy prices, preserving economic development, and generating employment is today's major problem for governments throughout the world. Several factors, including the need for finance to contribute to environmental sustainability, the need to generate

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

sustainable wealth for current and future generations, the need to transition to sustainable banking, the need for finance to contribute to climate change mitigation and ongoing policy support for sustainability and sustainable development, have all contributed to the move towards sustainable finance (Ozili, 2021). This move has and will continue to contribute to holistic development — socially, environmentally, and economically. Adopting sustainable finance often raises profitability over the long haul, contributing to progress with profit. For instance, following the Paris Agreement, China and other major economies began to make significant investments in climate-friendly energy and infrastructure. The green bond market has nearly quadrupled to over $83 billion. China rose from absolutely nothing to become the leading issuer, with approximately $37 billion in green bonds issued. Corporate issuance tripled to $28 billion, as energy corporations, automakers, and even technology businesses entered the green bond market (Sedov & Mattison, 2017). Businesses also often end up cutting costs and saving a lot of capital by reducing the use of depletable resources like fossil fuels or by increasing their use of renewable energy. Additionally, adopting sustainability boosts a business's reputation in the community. A live example of this can be seen in the case of Jolyka Bolivia — the first South American producer of FSC-certified laminate and other tropical hardwood flooring products. It sells to the United States and Europe, where consumers are worried about the sustainability of tropical wood. Jolyka was one of the winners of the New Ventures, a World Resources Institute program, business plan competition for potential firms that include social and environmental advantages in 2000. This resulted in immediate reputational benefits, including media attention as a successful, trustworthy, and 'green' corporation. It also aided in the raising of additional financing, as Jolyka was visited by four investors over the next six months and renegotiated $2 million in long-term loan funding (Cowe, 2002). By the same token sustainable finance promotes innovation. For instance, with the influx of sustainable investment and depletion of natural resources, Saudi Arabia has vowed to achieve net-zero carbon emissions by 2060, with solar and wind energy supplying 50% of its power system by 2030. The government has initiated initiatives such as NEOM, a $500 billion smart metropolis that is now under development and will be powered entirely by renewable energy. This case of Saudi Arabia validates how sustainability propagates innovation (Alafranji, 2022).

However, achieving these benefits of implementing sustainable finance comes with its own set of limitations and challenges. The core concept of sustainable finance is that finance should contribute to long-term sustainability. This means that all parts of finance should contribute to long-term viability. It is challenging to make all areas of finance contribute individually to sustainability while remaining effective as a tool for traditional financial intermediation. This is due to the necessity to redefine the function of each part of finance such that it is less beneficial for traditional financial intermediation and more valuable for sustainable financing and development (Ozili, 2021). Moreover, strict regulation or rewarding regulation surrounding

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

sustainable finance can force organizations to adopt sustainability as a form of greenwashing or simply exit the sustainable finance sector to access less restrictive profits for their own sake. Similarly, ESG reporting is an important component of sustainable finance. Making ESG reporting a legal obligation for businesses has the advantage of ensuring that businesses accept responsibility for the impact of their business actions on the environment and society. However, one unexpected consequence of required ESG is that it causes corporations to reduce the ESG reporting process to a simple bureaucratic exercise, resulting in less transparency about the firm's actual social impacts (Ozili, 2021). It is also important to note that accessing resources to attain sustainability might be much more difficult for local and small organizations as compared to bigger corporations due to a lack of business networks, exchange of ideas, and recognition of their efforts.

4. Conclusion

The study of how finance (investment and lending) interacts with economic, social, and environmental challenges is known as sustainable finance. This essay demonstrates how sustainable finance has the ability to transform finance from a goal (profit maximization) to finance as a means to achieve sustainability (Schoenmaker, 2017). Sustainable finance is largely emerging as a result of the desire of an increasing number of investors who seek to obtain not just a risk-adjusted return on their investments, but also an influence on a firm's ESG strategy and policy. Before it can be called a solid component of the current financial environment, sustainable finance has a long way to go. Aside from market dynamics and potential policy actions to further develop the sector, it is becoming increasingly clear that the fortunes of sustainable finance will be determined by the level of political commitment of the international community to environmental goals (Schäfer, 2012). Whilst there exist multiple challenges to achieving profit with ESG progress, inclusive regulations and a narrowed approach to implementing sustainable finance can become beneficial.

References

1) Ahlström, H., & Monciardini, D. (2021). The Regulatory Dynamics of Sustainable Finance: Paradoxical Success and Limitations of EU Reforms. *Journal of Business Ethics*, *177*, 193–212. https://doi.org/10.1007/s10551-021-04763-x

2) Alafranji, G. (2022, November 29). *Sustainable finance: international examples to follow — RatedPower*. Ratedpower.com. https://ratedpower.com/blog/sustainable-finance-examples/

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

3) Bocken, N. M. P. (2015). Sustainable Venture Capital – Catalyst for Sustainable Start-up Success? *Journal of Cleaner Production*, *108*(A), 647–658. https://doi.org/10.1016/j.jclepro.2015.05.079

4) Cowe, R. (2002). *Developing Value: The Business Case for Sustainability in Emerging Markets*. SustainAbility Ltd.

5) Fullwiler, S. T. (2015). Sustainable Finance: Building a More General Theory of Finance. *Binzagr Institute for Sustainable Prosperity Working Paper*, *106*.

6) Goel, R., Gautam, D., & Natalucci, F. (2022). Sustainable Finance in Emerging Markets: Evolution, Challenges, and Policy Priorities. *IMF Working Papers*, *2022*(182), 1. https://doi.org/10.5089/9798400218101.001

7) Goglio, S., & Catturani , I. (2019). Sustainable Finance: A Common Ground for the Future in Europe? In M. Migliorelli & P. Dessertine (Eds.), *The Rise of Green Finance in Europe. Palgrave Studies in Impact Finance.* (pp. 239–261). Palgrave Macmillan.

8) Kerste, M., Rosenboom, N., Sikken, B. J., & Weda, J. (2011). *Financing Sustainability: Insights for Investors, Corporate Executives, and Policymakers*. Vu University Press.

9) Leleux, B., & Kaaij, J. van der. (2019). *Winning Sustainability Strategies: Finding Purpose, Driving Innovation and Executing Change*. Springer International Publishing.

10) Migliorelli, M., & Dessertine , P. (2019). Green Finance Today: Summary and Concluding Remarks. In M. Migliorelli & P. Dessertine (Eds.), *The Rise of Green Finance in Europe: Opportunities and Challenges for Issuers, Investors and Marketplaces* (pp. 263–271). Palgrave Macmillan.

11) Ozili, P. K. (2021). Making Sustainable Finance Sustainable. *Financial Internet Quarterly*, *17*(3), 64–70. https://doi.org/10.2478/fiqf-2021-0020

12) Pisano, U., Martinuzzi, A., & Bruckner, B. (2012). *The Financial Sector and Sustainable Development: Logics, principles and actors* (pp. 6–53). ESDN Quarterly Report N°27.

13) Schäfer, H. (2012). Sustainable Finance - A Conceptual Outline. *SSRN Electronic Journal Working Paper*, *3*. https://doi.org/10.2139/ssrn.2147590

14) Schoenmaker, D. (2017). *Investing For The Common Good: A Sustainable Finance Framework*. Bruegel.

ISSN: 2455-8834

Volume:08, Issue:09 "September 2023"

15) Sedov, D., & Mattison, R. (2017, March 28). *Green Finance: The Next Driver of Real Growth?* www.spglobal.com. https://www.spglobal.com/en/research-insights/articles/green-finance-the-next-driver-of-real-growth

16) Štreimikienė, D., Mikalauskienė, A., & Burbaitė, G. (2023). The role of sustainable finance in achieving sustainable development goals. *Economics & Sociology*, *16*(1), 271–298. https://doi.org/10.14254/2071-789X.2023/16-1/17

17) Tafsir, M. (2021). Sustainable Finance: A Strategy to Increase Good Corporate Governance and Company Value in Banking Industry. *Atestasi : Jurnal Ilmiah Akuntansi*, *4*(2), 164–172. https://doi.org/10.57178/atestasi.v4i2.99

18) Ziolo, M., Bak, I., & Cheba, K. (2020). The Role Of Sustainable Finance In Achieving Sustainable Development Goals: Does It Work? *Technological and Economic Development of Economy*, *27*(1), 1–26. https://doi.org/10.3846/tede.2020.13863

