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PROJECTIONS ON THE ROLE OF SUSTAINABLE FINANCES

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Abstract: *The paper aims to present a topical issue in today's socio-economic context when the main challenges are to identify ways of production and consumption that are subordinated to sustainable processes. Through an analysis of the current state of research on the conceptual approach to financial sustainability, the paper aims to identify the main directions and tools to be used to ensure the successful implementation of a sustainable financial system. Following the centralization of the approaches offered by the literature on the framework of sustainable finance, the paper proposes a model of integrated approach of the main determinants of sustainable finance, considered the key element in achieving the objectives of economic, social and environmental sustainability.*

Keywords: sustainable finance, finance framework, sustainable instruments

1. Introduction

The transition to sustainability requires a multidimensional approach, being a very complex concept, which corresponds to a reality in continuous development and transformation. Achieving the objectives of sustainability involves synchronizing processes, methods, tools to identify the cause-effect relationship and establish the appropriate framework for implementing strategies for sustainability as a whole.

Whether we are talking about the transition to sustainability at the country or company level, it will be very important for the science of sustainability to meet all future challenges [1]. This integrated approach to sustainability has many supporters in the current literature, arguing and debating the direct relationship between sustainable development at the microeconomic level and sustainable development at the macroeconomic level. The study by Pieloch-Babiarz A. [2] presents the idea that "without sustainable organizations there is no sustainable development, so there is no future".

Hoffman and Ehrenfeld [3] (2015) argue a similar idea, namely that the solutions for implementing sustainability must come from companies, being the most powerful institutions on Earth. Sustainability means achieving and maintaining the long-term balance of the system, and can only take place by identifying and understanding the risks and undesirable consequences, from the perspective of an entire product life cycle, along the entire value chain. Whether we are referring to the trinomial approach: economic-social-environmental, or the one built on the vision of planetary borders, the main directions on which the sustainability process is oriented involve financial resources, which is why guaranteeing the premises of sustainability is conditional on funding. The financial system in the context of sustainability, given the role of this

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mechanism in the functioning of the market economy, is the engine of the transition to performance in sustainable terms, which is why special attention must be paid to the concept of sustainable finance.

In addition, achieving the Sustainable Development Goals (SDGs) set globally by the 2030 Agenda is closely linked to funding. In order to improve funding, there are several directions for action, such as (1) incorporating non-financial factors (environmental, social and ESG governance) into the risk analysis of financial institutions; (2) the development of roadmaps towards sustainable finance and the increase of cooperation at regional level; and (3) the development of a typology of sustainable assets and finance [4].

2. Current approaches regarding sustainable finance

In order to highlight the current state of research on the conceptual framework of sustainable finance, we conducted a systematic search among the literature. More precisely, we have developed a search protocol in order to carry out the most comprehensive research possible.

It has been used the Scopus platform as a database in which we started looking for papers that contain key concepts such as "sustainable finance framework" or "sustainable finance model" or "responsible "finance framework" or "responsible finance model" or "green finance framework", or "green finance model" in the titles of articles, abstracts and/or keywords. We then limited the search, considering only the works in English. Furthermore, we did not consider it necessary to impose other restrictions, such as the period of publication, the type of document, etc. given that only five documents were generated, which demonstrates the topicality of the research niche approached. In parallel, we conducted a review of the studies based on citations from the articles generated by the basic search, thus taking into account two more impact works in the field of sustainable finance, the content of which is analyzed below. As a main idea, we have seen that there are still many legislative initiatives to support sustainable finance, but there is still not enough emphasis on developing sustainable finance frameworks to establish the best directions for the effectiveness of funding to achieve and maintain sustainability.

The latest study on this topic, conducted by Dusik and Bond [5], examines the link between existing global environmental impact assessment (EIA) systems and sustainable finance frameworks, namely the EU 2019 taxonomy. Taxonomies for sustainable investment are a specific tool that seeks to align financial investment with environmental and other sustainability objectives and includes environmental, social and governance assessment and reporting methodologies (European Sustainable Goals), benchmarks and verification and certification schemes. They aim to improve reporting on sustainable financing and facilitate regulatory policies and actions in this area. The EU taxonomy 2019 is a framework that aims to facilitate sustainable investments, and the conclusions of the cited study show that there is a very clear link between these two instruments, which can influence each other.

The authors of the quoted article also argue that the EU taxonomy is a change in mentality in the way that sustainable development is understood and, above all, applied. In this respect, the EU's taxonomy can have a considerable impact on how EIA systems are used in investment decision-making. In addition, the proper use of taxonomies in environmental assessment systems can further strengthen existing EIA systems and enable them to respond more effectively to the challenges and realities of the 21st century towards environmental protection.

In response to Dusik and Bond's work, Jenkins [6] expresses his view based on the

idea that there is primarily a conceptual difference between impact assessment and sustainable development.Impact assessment is based on "effects-based management" - the management of the effects of actions, rather than the actions themselves. Sustainable development is based on "results-based management" - the development of actions to achieve results. Proactive interventions are needed to achieve sustainability. Based on the principles of EU taxonomy, sustainable financing frameworks have the potential to radically improve environmental performance and avoid the need to compromise between economic gains and environmental losses. The impact of these proactive approaches also needs to be assessed, but in Jenkins' view, this is now beyond the scope of existing Environmental Impact Assessment (EIA) systems.

Rufus (2022) [7] argues that sustainability has become a necessity rather than an optional component. In this context, and referring to Dusik and Bond's article, he considers the EIA to be a relatively minor tool in a wider economic and political decision-making apparatus, unable to meet current sustainability requirements. Instead, taxonomies are a newer tool and probably better reflect the current consensus. EU taxonomy introduces new and higher requirements for financial sustainability. In response to the original article, Rufus does not necessarily focus on the impact of taxonomies on EIA, but argues that the real issue is the main purpose and value system that most governments and private organizations are targeting, namely economic growth. There is a need to incorporate environmental values and sustainability into primary legislation, which then sets out the direction and purpose of all government bodies and departments. Once this revolutionary step is taken, existing EIA systems can be easily used to provide the control and verification mechanism in relation to these values.

The study by Ziolo et al. (2021) [8] is another study conducted in the context of sustainable finance models. More specifically, it is a macroeconomic research examining the link between sustainable finance and the Sustainable Development Goals (SDGs) based on European Union countries belonging to the Organization for Economic Co-operation and Development (OECD). The research questions were defined as follows: (1) For which SDG is the strongest link to the sustainable finance model?; (2) For which groups of countries is the strongest relationship between the SDGs and the sustainable finance model observed ?; (3) What factors determine the differences in results between countries? And the main research hypothesis is that the more sustainable the financial model, the better the connection with achieving the SDGs.

The authors based their approach on that of author Schoenmaker [9] (2017) who developed a framework based on three models of sustainable finance (SF):

I. traditional finance model or “finance-as-usual” (F) - the sustainable finance model 1.0 which aims to maximize profit, and which avoids “sinful” actions (F> S and E);

II. sustainable finance model 2.0 which involves the internalisation of externalities in order to avoid risk (T = F + S + E);

III. sustainable finance model 3.0 that considers the contribution to sustainable development while respecting financial viability (S and E> F).

The results of the research confirm the hypothesis that the implementation of the SDGs depends on the application of a sustainable finance model. Specifically, in countries that have applied the Sustainable Finance 3.0 model, in which both the public and private financial systems are actively involved in financing sustainable development, the performance on implementing the SDGs is very high. The Sustainable Finance 2.0 model allows for the implementation of above-average SDGs. However, the financing of

environmental objectives requires adaptation to the needs and structure of economies. Following the evolution of sustainable finance in recent decades, the new framework highlights the transition from the traditional financial system, which seeks only to maximize shareholder value by seeking the optimal combination of financial return and risk, to the financial system based on shareholder value theory and then to based on the value theory of stakeholders. The final stage concerns a financial system capable of creating value for the common good, responding primarily to social and environmental challenges. The important thing is that the time horizon widens from short-term to long-term as each stage passes.

Thus, 3 steps are proposed in order to ensure a favorable framework for achieving the highest possible level of sustainable finance, moving from the emphasis placed only on the economic dimension, then to the approach based on achieving the balance of the three dimensions equally (medium -social-economic) and, finally, to follow the social and environmental impact.

Another paper by Andreeva et al. (2018) [10] does not propose or analyze a specific framework of sustainable finance, but rather supports new theoretical and methodological approaches in the development of a financial framework of the green economy ("green finance"). The authors study trends and key points in the regulation of green finance, systematizing, through an integrated methodological approach, the main practices of fundraising in the green economy, the importance of supporting the authorities in solving financial problems on energy saving and the need to expand the use of financial "Green" instruments at the level of companies and institutions.

Sandberg (2018) [11] introduces a two-tier sustainable finance model. While shareholders can focus on profit in their day-to-day business, they must also meet the social demands of society. He recommends that public policies codify this social consensus in the obligations and responsibilities of investors (called fiduciary obligations). By combining the models and frameworks identified in the present research, together with existing initiatives, instructions, methods and tools at the international level, comprehensive and useful frameworks for the management, classification, measurement and evaluation of sustainable finance can be developed, details of which should be gradually introduced through specific legislative initiatives, which are then standardized and can be used at national / regional level, if not globally.

3. Identifing a context conducive to sustaining sustainable finance

In our view, a sustainable financial system can contribute to a rapid transition to sustainability. Therefore, given the need to create a common framework for action towards achieving sustainability, important here is the good design of sustainable financial systems, through sustainable finance frameworks and models, so it is necessary to identify vulnerabilities caused by lack of coordination and cooperation between microeconomic segment the macroeconomic one.

Sustainable finance is a concept that is constantly evolving and is a new paradigm of finance. The term "sustainable finance" is often used to describe "responsible finance", which is supported by the role of the financial resource in ensuring the economic processes that need to be geared towards achieving real, quantifiable and sustainable results. The sustainable financial system characterizes financial institutions that take part in economic activity by financing those companies that carry out economic activities that respect the balance between environment, social and economic and whose short, medium and long term objectives are not limited to maximizing profit, but have a much wider

horizon represented by ensuring the sustainable value of the company.

Nowadays, the main role of financial systems is to allocate funds as efficiently and productively as possible. Thus, financing can play a key role in allocating investments that need to be targeted at those companies that are making real efforts to move to a low-carbon circular economic system (Schoenmaker and Schramade, 2019) [12], helping to address environmental and social issues (Scholtens, 2006) [13], putting pressure on policy to become a responsible party in supporting the creation of the most appropriate coordination and monitoring framework for ensuring economic, social and environmental sustainability, strategic decisions on trade-offs between sustainable goals. The approach to finance should not be seen only from the perspective of financial institutions that finance companies' investments, a special role also being played by investors and potential shareholders who can condition the capital contribution by orienting companies towards sustainable business. The role of investors in financing economic activities aimed at sustainability also includes psychological aspects, related to the mode of action of capital holders, who may have a socially responsible approach to business, being willing to accept less spectacular financial performance in order to pursue social, environmental or ethical goals.

Returning to the aspects that define the concept of sustainable finance, we can see that the literature relates to the banking system and its role in financing sustainable investment. In order to establish a way to correlate the financing objectives with the process of ensuring the necessary premises to achieve sustainability, a complex study was conducted (Friede, Busch and Bassen, 2015) [14] which highlighted the positive relationship between performance quantified by indicators of the ESG system and those of performance of the investment to be financed.

However, if we analyze the role of the banking system, we can identify obstacles in this respect, represented by the fact that creditors charge a significantly higher interest rate on bank loans granted to companies with environmental concerns, compared to those practiced for companies without such concerns. This requires the creation of measures to regulate these obstacles in order to achieve the objectives of sustainable financing. This reiterates the need to create a strategic economic-social-political partnership aimed at ensuring a common and unitary framework of action subordinated to the objective of achieving and guaranteeing sustainability, important here being a good design and management of sustainable financial systems, financial models to establish the best directions for the effectiveness of funding to achieve sustainability. In other words, business influences communities, business influences governments, and now it is essential that they focus on all three directions: economic, social, and environment. Therefore, in order to do sustainable business, it is necessary to pursue and achieve all these aspects in the short, medium and long term.

Implementing environmental and social sustainability can mean developing good and effective environmental legislation, taking into account the specifics of the country / region / industry, public involvement, good reporting and publication of results.

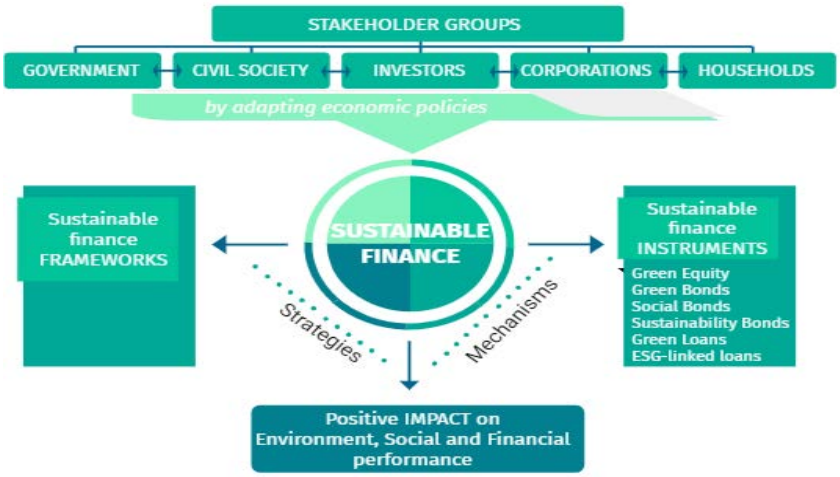


Figure 1: An integrated approach to sustainable finance
Source: Authors' conceptualization

In addition, the relationship between the environmental and economic sustainability dimension can be translated into energy efficiency, subsidies/tax exemptions, while the interaction between the social and economic dimension can generate fair taxation, business ethics and employee rights issues.

All these interdependencies and cause-and-effect correlations have been highlighted schematically, and we want to capture the main determinants and guarantors of the implementation of the sustainable finance system through an integrated approach.

4. Conclusions

Sustainable finance is of particular importance in achieving long-term sustainability goals, and ensuring an appropriate framework for the implementation of sustainable financing processes that can only be guaranteed through public-private partnerships. By transposing from macroeconomic to microeconomic conditions of participation in the market economy and by identifying and pursuing objectives aimed at sustainability at the firm level, we proceed to create a "circle of sustainability" in which all parties act towards achieving the objectives of sustainability, the key to its system success being sustainable financing.

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