International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 8 Aug. 2022, pp: 1683-1688 www.ijaem.net ISSN: 2395-5252

The concept of sustainable finance as an alternative model for conventional financial investment

Mbiatke Anthony

Date of Submission: 20-08-2022 Date of Acceptance: 31-08-2022

ABSTRACT
The focus of this research is on the rules and regulations set forth by law in the area of sustainable financial practices. The study's overarching goal is to better understand why the management of financial assets has to be rethought. Specifically, we're interested in how processes related to general, financially efficient investment and investment related to social responsibility interact with one another in financial markets. This paper was compiled using the following research methods: a review of relevant literature, a review of relevant legal acts, desk research, in-depth observations, a descriptive analysis, and a comparison analysis. The primary takeaway is that mandatory requirements in legal acts are gradually replacing the current approach of voluntarily incorporating ESG criteria (environmental-social-governance) into investment decisions. This has caused the already rapid development of financial markets with respect to ESG concerns to quicken considerably. Financial markets will likely shift in favor of assets that value factors other than pure profit. There is a possibility that the current trend represents a major paradigm shift in the world of finance.

Keywords: sustainable finance, responsible investment, law regulations, financial market, economy

I. INTRODUCTİON

Accounting and valuation laws, as well as those governing the creation and assessment of financial statements, vary widely from one country to the next, as was highlighted by the 2001-2002 financial crisis. The flaws in valuation, presentation, and adequacy of financial statements were again brought to light during the 2007-2008 financial crisis.There was a shift toward tightening up laws and tightening up regulations as a result of both crises.

At the same time that legislation were being enacted to enhance the integrity of financial markets and supervision and reduce the likelihood of another financial crisis, another societal phenomena that could be termed as "sustainable finance" began to gain prominence. The idea of sustainable development, popular in those years, is where this practice first emerged. After the financial crises, heightened social awareness (mostly due to the natural environment), and the unique activity of two institutions, namely the United Nations and the European Union, the concept of sustainable finance began to gain traction.

The current process of considering non-financial criteria during the investment decision-making process is, therefore, being increasingly replaced by mandatory requirements in legal acts and international standards. With these guidelines in place, businesses won't be able to "greenwash," or falsely claim to be concerned about environmental preservation or CSR (CSR). However, these actions alter the environment of current and future investing and the mindset of investors as a result of their actions. Environmental, social, and governance (ESG) risk analysis is becoming as important as financial risk analysis, signaling a paradigm shift in the way assets are invested and managed.

The focus of this analysis is on the rules and regulations set forth by law in the field of sustainable finance. The purpose of this study is to establish whether or not the management of financial assets has to be rethought. The focus of this study is on the ways in which general investments based on financial efficiency and investments addressing social responsibility overlap in the financial markets. The information presented in this article is the result of extensive study that included the following methods: analysis of relevant legal acts, desk research, observations, descriptive analysis, and comparison analysis.

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 8 Aug. 2022, pp: 1683-1688 www.ijaem.net ISSN: 2395-5252

1. The development of the sustainable finance idea

Sustainable finance or sustainable investment derives from two significant economic trends: sustainable development and responsible investment. This highlights the importance of investment and finance for sustainable economic growth.

Sustainable development involves the economy, natural system (natural resources and ecosystems), and human well-being.This means sustainable development should meet today's demands without jeopardizing tomorrow's. Responsible investing is when investors consider environmental, social, governance, and ethical issues without sacrificing profit.

In EU documents, sustainable finance means financing investments while considering environmental, social, and governance issues. Sustainable finance contains a strong green financing component that attempts to support economic growth while decreasing environmental pressures, addressing greenhouse gas emissions, minimizing waste, and enhancing natural resource efficiency. It includes improving understanding and transparency of risks that may damage the financial system's sustainability and the necessity for financial and corporate institutions to mitigate those risks through adequate governance.

In the 18th and 19th centuries, religiously oriented investors (such Quakers and Methodists) strove to match investments with their convictions. The Religious Society of Friends banned slavery in 1758. John Wesley preached good business methods and avoided dangerous sectors (Camilleri, 2017, pp. 61-77). The earliest investors to establish ethical restrictions on investment portfolios were likely church-based investors who applied their private ethical principles to their investing strategy. Early ethical investments avoided'sinful' businesses including alcohol, cigarettes, and gambling.

Positive screening and best-in-class investing are new forms of responsible investment that filter companies based on ESG issues. Investors engaged 'irresponsible' corporations to modify corporate behavior (the so-called shareholder activism). Prior to the financial crisis, the major goal of socially responsible investment (SRI) was its financial rewards. However, the crisis highlighted SRI's reputational ramifications. SRI helped financial organizations preserve or restore their status as good corporate citizens, legitimizing their existence. (Norm-based, 2012).

Sustainable finance uses many investment strategies as described below.

1. Negative screening eliminates specific industries, sectors, firms, practices, regions, or jurisdictions from responsible investment goals. Gaming, alcohol, cigarettes, firearms, pornography, and animal testing are negative screening criteria.
2. 'Best-in-class' positive screening. Positive screening identifies companies with strong ESG performance across industries and marketplaces.
3. Norms-based screening involves screening investments that don't fulfill minimum business requirements. The criteria are based on international norms and rules such as those specified by the UN (UN Global Compact, ILO, UN Children's Fund, and UN Human Rights Council).
4. Sustainability-themed investing involves investing in sustainable themes or assets. This comprises renewable energy, green technology, sustainable agriculture, green property, and water technology funds.
5. Positive impact investing involves projects with a stated social purpose and environmental investing that aims to finance environmental efforts.
6. Company advocacy and shareholder action refers to shareholders' ability to influence corporate behavior through discussions with management, shareholder initiatives, and proxy voting with ESG principles.
7. ESG integration includes environmental, social, and governance concerns in investment managers' financial research and decisionmaking. This method assumes these factors drive investment value and risk.

As people became more aware of the social, environmental, and ethical ramifications of corporate actions and their monetary impact, ethical investing gave way to the development of sustainable finance. As a result, the methods used to factor in non-financial aspects during the investing process have progressed from negative screening to a more holistic approach that integrates multiple methods.

Expectations for a brighter financial and economic future are linked to reasonable skepticism, of course, but also to the possibility that sustainable policies and institutions will really deliver on those promises. The question is, how much of a requirement is it to integrate sustainable factors?Is there a degree to which naiveté and greenwashing play a role in this procedure? Dziawgo (2014).

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 8 Aug. 2022, pp: 1683-1688 www.ijaem.net ISSN: 2395-5252

2. Financing sustainability through UN programs

The United Nations study "Our Common Future" from 1987 popularized the idea of sustainable development by stressing the importance of the interdependencies between people, resources, the environment, and development. That "humanity has the power to make development sustainable to ensure that it serves the needs of the present without compromising the ability of future generations to meet their own needs" was expressed in point 27. The ability of the biosphere to absorb the effects of human activity and the finiteness of the Earth's resources are two examples of the kinds of restrictions implicit in the concept of sustainable development.But technology and social structure may be both managed and developed to make space for a new period of economic growth" (Our Common Future, 1987). (Our Common Future, 1987).

The Earth Summit, or United Nations Conference on the Environment and Development, held in Rio de Janeiro in 1992, produced a document entitled "Agenda 21." (United Nations, n.d.). The document makes 27 recommendations for the twenty-first century. Changes in consumption, health promotion, the role of sustainable communities in policymaking, pollution prevention, and the availability of necessary financial, institutional, and legal instruments were only some of the many issues discussed over four distinct sections.

In addition, the United Nations published an equally crucial document in 2000 titled "Millennium Declaration," which outlined six fundamental values necessary for the 21st century. One of these values was "Respect for nature," which included the following passage: "Prudence must be shown in the management of all living species and natural resources, in accordance with the precepts of sustainable development." This is the only way to ensure that future generations enjoy the incalculable benefits that nature has bestowed upon us (the United Nations Millennium Declaration). The future of our species depends on altering the current unsustainable patterns of production and consumption for the benefit of our children and grandchildren. Global Compact was a United Nations program for business sustainability that was introduced in the year 2000. Human rights, labor, the environment, and fighting corruption are only few of the topics covered by the ten universal principles (Global Compact Network Poland, n.d.).

The "Six principles for responsible investments" is a landmark document that has helped to elevate the profile of sustainable finance. These principles are based on the idea that retail and institutional investors, financial markets, the economy, and the environment and society as a whole can all benefit from pursuing investments that are sustainable over the long term. The UN served as an inspiration and backing for the introduction of these principles to the New York Stock Exchange in 2006. As a concise guide for sustainable investment in the twenty-first century, they were established in the style of the Decalogue. Specifically, they take the form shown below (Principles for Responsible Investment, n.d.):

Principle 1: One of our guiding principles is to consider environmental, social, and corporate governance (ESG) factors while making financial decisions.

Principle 2: we will engage as owners and factor ESG concerns into our decision making.

In accordance with Principle 3, we will insist that the companies in which we have an ownership stake provide sufficient information on environmental, social, and governance (ESG) matters.

Fourth Principle: We will work to have the Principles widely adopted and put into practice throughout the investment community.

Principle 5: Cooperation between us will increase the efficiency with which the concepts are put into practice.

Principle 6: We will keep each other updated on our work to implement these principles.

3. Financing sustainability through EU programs

The European Union has taken steps toward raising the bar on social responsibility in step with the global initiatives inspired by the United Nations. Most notably, two resolutions were passed on 6 February 2013 on the topic of CSR: "Corporate Social Responsibility: accountable, transparent, and responsible business behavior and sustainable growth" (European Parliament resolution) and "Corporate Social Responsibility: promoting society's interests and a route to sustainable and inclusive recovery" (European Parliament resolution).

Therefore, in 2014, Directive 2014/95/EU was established to mandate that financial reports include additional, non-financial information. Non-financial data sharing like this should make it easier to evaluate, track, and manage the social and economic impacts of businesses. Therefore, starting in 2017, big enterprises that are public-interest companies will be required to include a nonfinancial statement in their annual report,

detailing their policies and practices regarding issues like as respect for human rights, anti-corruption, and bribery. The GRI4 standard1 is used for reporting both financial and non-financial information in the European Union.

The European Union (EU) is now engaged in a number of initiatives aimed at mobilizing financing for sustainable growth by incorporating sustainability considerations into its financial policy framework. The European Commission approved a set of measures in 2018 to put into motion several of the major activities outlined in its action plan on sustainable finance.

- A uniform classification system ('taxonomy') for what constitutes ecologically friendly economic activity is included in the bundle of rules. This is crucial in order to direct funds toward environmentally friendly endeavors.
- Provides information on the extent to which institutional investors and asset managers incorporate environmental, social, and governance considerations into their risk procedures as part of investment decision-making.
- Develop new benchmark rules (including low-carbon and positive carbon impact benchmarks) to educate investors on the impact of their investments on the environment.

Similarly, the Commission has been hard at work revising MiFID II, Solvency II, and the Insurance Distribution Directive (IDD) so that investment companies and insurance distributors can take ESG factors into account when advising their individual clients. The European Commission has released proposed regulations for including ethical, social, and corporate governance considerations in financial planning. The European Commission has stated that "clarifying that ESG factors should be taken into account in the investing and advice process as part of the duty towards customers" is one of the main goals of the legislation (EUR-Lex, Document Ares, 2018). According to Article 1, financial advisory and portfolio management firms are required to conduct an ESG assessment of their customers using a client-facing questionnaire.After learning about their clients' environmental, social, and governance (ESG) priorities, investment firms should factor such criteria into the products they recommend to their clients.

After that, in June of this year, the European Commission released updated reporting standards for climate-related information, which are essentially an addendum to the already-existing reporting guidelines for matters other than financial performance. The European Commission (1) (n.d.) has released guidelines to help businesses better report the effects of their operations on the environment and the effects of climate change on their operations.

Referring to (European Commission (1), n.d.), the European Commission released three expert papers on sustainable finance in June 2019.

- A taxonomy for environmentally responsible business practices that will help us reach our goal of a carbon-free economy.
- Standardization of criteria for issuing green bonds across the European Union. In particular, it will evaluate whether climatic and ecologically favorable activities should be eligible for funding through an EU green bond by tying to taxonomy.
- Disclosures in European Union climate benchmarks and environmental, social, and governance (ESG) indices. Here, we establish the standards for how indexes are constructed and the technical requirements that institutional investors must meet to mitigate the threat of greenwashing. The report also specifies what benchmark providers need to disclose in regards to environmental, social, and governance (ESG) concerns.

4. The worth of investments taking ESG factors into account

The value of assets managed using sustainable strategies must be taken into account when examining the significance of sustainable finance. Every two years, the Global Sustainable Investment Alliance (GSIA) releases a study on the advantages and emerging trends in sustainable financial investment. The following table includes information from the aforementioned reports (2016 Global..., n.d.; 2018 Global..., n.d.). According to that paper, sustainable investment includes the following techniques: Screening methods include: negative/exclusionary; positive/best-in-class; norms-based; ESG integration; sustainability-themed investing; impact/community investing; corporate involvement; and shareholder action.

On the five major markets, the value of sustainable investment assets is expected to be $30.7 trillion USD, up 34% in just two years. Since 2014, the value of sustainable investment assets has been on the rise. The majority of assets are invested in Europe, followed by the United States of America, among the examined regions. Japan experienced the biggest increase in assets under management utilizing sustainable solutions from 2014 to 2020. (Table 1).

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 8 Aug. 2022, pp: 1683-1688 www.ijaem.net ISSN: 2395-5252

Table 1. Value of sustainable investing assets (2014-2018)

Region	2014	2016	2018	2020
Europe	10.886	12.152	14.186	16.085
United States	7.683	9.834	12.116	14.296
Japan	7	585	3.291	5.063
Canada	775	2.197	2.997	3.658
Australia & New zealand	159	626	845	1101
Other	54	73	99	110
Total	19.564	25.467	33.534	39.322

The percentage of assets managed using sustainable strategies relative to the overall managed value of assets must be shown in order to analyze the significance of sustainable investing. The pertinent facts for important regions are shown in Table 2. Approximately 40% of assets worldwide are being invested taking into account sustainable finance2.

In every region with the exception of Europe, as indicated in Table 2, the proportion of sustainable investment to all managed assets increased. Assets that are responsibly invested outnumber the majority of the total assets under professional management in Canada, Australia, and New Zealand. In Europe, a notable exception to this trend, sustainable investment assets have fallen behind total managed assets since 2014.This is likely a result of the more stringent definitions and requirements for sustainable investing set in the European Union, which ban businesses and financial institutions from "greenwashing" (overstating their commitment to sustainable investing).

Table 2. Proportion of sustainable investing relative to total managed assets (2014-2020)

Region	2014	2016	2018	2020
Europe	69.9%	62.7%	59.8%	43.5%
United States	27.1%	32.7%	36.8%	41.3%
Japan	n/d	4.5%	29.4%	39.8%
Canada	41.4%	47.9%	61.7%	70.4%
Australia & New zealand	27.7%	61.7%	73.3%	85.1%

In conclusion, it appears that both the value of responsible assets and the share of sustainable investment assets in globally managed assets will rise in the future. New laws relating to the consideration of sustainable finance are being introduced in various nations. For instance, the UK Department of Work and Pensions declared that by October 2019, pension plans with more than 100 members must disclose the risks associated with their investments, including those related to environmental, social, and governance concerns (Espadinha, 2018). Australia, Singapore, and Hong Kong, to name just a few, have already committed to adopting sustainable practices in the financial sector. As a result, it is reasonable to anticipate that these regulation reforms will result in a greater level of ESG integration inside the financial sector and the investment process.

II. CONCLUSİON

Without a doubt, the modern world is under constant strain, with financial investment playing a significant role. Parallel to this, investor demand, governmental reforms, and high expectations on the relationships between ESG preferences, investment risk, and financial performance have made sustainable finance a mainstream phenomena.Thus, it can be stated that the financial markets' current moderate evolution in terms of incorporating responsible elements into the investment process has accelerated. The previously optional ESG variables in the investment process are now required considerations. Laws, regulations, and standards unify created data, making it easier for non-financial data to be used. It is possible to draw the conclusion that assets invested taking non-financial preferences into account will rule the financial markets. As a result, sustainable investing will move from a minor trend to a dominant one, and ESG considerations will be added to the standard analysis of investment criteria. By creating new standards for financial investment analysis, this will revolutionize the investment process.But it's

International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 8 Aug. 2022, pp: 1683-1688 www.ijaem.net ISSN: 2395-5252

vital to remember that regulatory requirements led to the inclusion of ESG factors in the investment process. Therefore, it cannot be said that it will be effective and long-lasting. Long-term decisions will be made by investors and asset managers.

REFERENCES

[1]. Alliance, G. S. I. (2019). Global sustainable investment review 2018.

[2]. Alliance, G. S. I. (2018). Global Sustainable Investment Review (2016) http://www. gsi-alliance. org/wp-content/uploads/2017/03/GSIR_Review2016 . F. pdf. Accessed, 9.

[3]. Camilleri, M. A. (2017). Corporate sustainability, social responsibility and environmental management. Cham, Switzerland: Springer International Publishing.

[4]. De Colle, S.,& York, J. G. (2009). Why wine is not glue? The unresolved problem of negative screening in socially responsible investing. Journal of Business Ethics, 85(1), 83-95.

[5]. Schulz, M.,& Della Vedova, B. (2014). Regulation (EU) No 1143/2014 of the European Parliament and of the Council of 22 October 2014 on the prevention and management of the introduction and spread of invasive alien species. Official Journal of the European Union, 317, 35-55.

[6]. Dziawgo, L. (2014). Greening financial market.

[7]. Espadinha, M. (2018). Pension schemes mandated to disclose ESG risks. Retrived July, 28, 2019.

[8]. Dziawgo, D. (2019). Sustainable finance as a new financial investment model. Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu, 63(12), 23-34.

[9]. European Commission. (n.d.). Commission action plan on financing sustainable growth – official document.Retrived July 12, 2019 from https://ec.europa.eu/info/publications/180308-action-plan-sustainable-growth_en

[10]. European Commission (1) (n.d.). Sustainable finance: Commission publishes guidelines to improvehow firms report climate-related information and welcomes three new important reports on climatefinance by leading experts. Retrieved July 12, 2019 from http://europa.eu/rapid/press-release_IP-19-3034_en.htm

[11]. European Commission. (n.d.). Sustainable finance. Overview. Retrieved May 15, 2019 from https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

[12]. European Parliament resolution of 6 February 2013 on Corporate Social Responsibility: Accountable,transparent and responsible business behavior and sustainable growth (2012/2098(INI)). RetrievedJuly 9, 2019 from http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7--TA-2013-0049+0+DOC+XML+V0//EN

[13]. European Parliament resolution of 6 February 2013 on Corporate Social Responsibility: Promotingsociety's interests and a route to sustainable and inclusive recovery (2012/2097(INI)). RetrievedJuly 9, 2019 from https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52013IP0050&from=GA

[14]. Global Compact Network Poland. (n.d.). Retrieved July 7, 2019 from https://ungc.org.pl/o-nas/obszary- dzialan/

[15]. Principles for Responsible Investment. (n.d.). Retrieved July 12, 2019 fromhttps://www.unpri.org/pri/what-are-the-principles-for-responsible-investment

[16]. United Nations. (n.d.). Earth Summit. Agenda 21. The United Nations Programme of Action fromRIO. Retrieved July 2, 2019 from https://www.dataplan.info/img_upload/7bdb1584e3b8a53d337518d988763f8d/agenda21-earth-summit-the-united-nations-programme-of-action-from-rio_1.pdf

[17]. United Nations Official Document, Resolution adopted by the General Assembly on 25 September2015. (n.d.). Retrieved June 9, 2019 from https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E