Chapter 15

Developments on Sustainable Finance: A Growth Opportunity for Global Economy

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ABSTRACT

Worldwide, the growing impetus towards sustainable finance is aroused by the maturation and the destructive effects of carbon markets in the form of severe weather, floods, and forest fires. It is widely acknowledged that supporting the transition to a low-carbon, green, and sustainable economy needs forefront of efforts to build a financial system. Given the provisions of sustainable finance, the policies that regulate the transition to green economy includes environmental social and corporate governance criteria. Sustainable finance is a type of financing that takes into account environmental, social, and corporate governance issues in providing finance to investors. Therefore, this chapter aims to highlight the importance of sustainable finance providing a growth opportunity to the global economy. Thus, the developments on sustainable finance constitute a strong potential that supports economic growth globally.

INTRODUCTION

Acknowledging the fact that global warming or climate change is due to the industrial growth because of the increase in greenhouse gases concentration which is a devastating problem involving the entire world as an environmental issue. Since the late 1800s, the average temperature of the world’s surface has been rising and the fundamental reason for the increasing temperature is industrialization during the last 150 years leading to the burning of greater quantities of fossil fuels and the cutting of forests. These activities have increased the amount of greenhouse gases in the atmosphere (Gupta, 2016). During the maturation and broadening of carbon markets in the form of severe weather, floods, and forest fires, a growing awareness of prominent devastation to the world economy in the form of climate change is realized. Reducing global carbon dioxide emissions is a critical challenge for the world economy, requires a transition from the traditional fossil-fuel based-economy into a low-carbon economy mitigating greenhouse
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gas and other polluting emissions, through technological and business innovations (Galharret & Wang, 2011). Understanding the resources of the world is exhausting and it is seen that people, institutions and organizations who are aware of this issue in an increasing population are trying to find solutions to this severe issue. The issue is undeniably prominent today and there is a need for rapid implementation of measures and action plans involving all people for humanity (Sonuç, 2014).

Today facing global warming, loss of biodiversity, rapid depletion and contamination, hunger, poverty, discrimination, human rights violations, and corruption are the major problems for humanity is in quest of a new order now. Covington (2017) highlighted the transition to a low-carbon economy, decarbonization, would shift the economic balance of some countries and change the business models of several industries causing a swift change in the energy mix of the world economy that would disrupt many economic sectors. Furthermore, the transition to the green economy means conversion (evolution) from the existing financial models towards one based on increased social and environmental responsibility (Ryszawska, 2017). Additionally, an important part of this transition is how to engage the financial system, in particular, towards a low-carbon economy (Batten et al., 2016). According to this transition, new concepts of finance have emerged in public debate such as green finance, sustainable finance, climate finance, carbon finance. The new approach of finance is purpose-oriented, mission-oriented, and value-oriented which is opposite to the traditional role of finance. The role of finance is changing from the dominant view which focuses on maximizing profits and shareholders wealth towards one supporting sustainable development, green economy, low-carbon economy and mitigation of climate change (Ryszawska, 2017). Given the circumstances, the transition, to be credible, requires full engagement of the financial system. Since its importance is recognized and to endorse the transition, sustainable finance is considered the key to this transition (Esposito et al., 2019).

First and foremost, the idea of sustainable finance is gaining attraction with the idea of financing investments that take into account environmental, social and governance considerations. The importance of sustainable finance will continue to increase with shifting market forces and societal expectations, the proliferation of policies and initiatives designed to accelerate the low-carbon economic transition, technological advances, and other innovation. Sustainable finance facilitates and creates values, and transacts financial assets providing real wealth for the long-term needs of an environmentally sustainable economy. A sustainable financial system plays three key roles to enable transition to a low-carbon, climate-resilient economy: first, it effectively recognizes the costs and risks of high-carbon and resource-intensive assets; second, it allocates sufficient attractively priced capital to low-carbon, resource-efficient assets; and third, it ensures that financial institutions and consumers are resilient to climate shocks, including natural disasters (Bem et al., 2017).

Sustainable finance is considered as finance supporting sustainable development in three combined dimensions: economic, environmental, social and corporate governance. The fundamental purpose of a sustainable financial system is to serve the economy and wider society to ensure that environmental, social and governance (ESG) factors are at the heart of financial decision-making. Society and economy expect that finance aligns themselves to environmental, social and corporate governance transition. The environmental transition needs money for mitigation and adaptation to climate change, protection of ecosystems and biodiversity. Redistribution of financial resources is necessary for social transition such as reducing poverty and inequalities. (Ryszawska, 2017). Eventually, the last dimension entails corporate governance practices that embrace transparency, equality, and accountability to all the company’s stakeholders.
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