

Sustainable Finance – As a New Scientific Financial Direction

Latipova Sh.M.

Assoc. Prof. Samarkand Institute of Economics and Service

Kholmurodova Sevara

Student of Samarkand Institute of Economics and Service

Abstract: *The article covers the content of the concept of sustainable finance, the formation of the concept of sustainable finance. Conclusions are given on the specific differences between traditional and sustainable finance.*

Keywords: *sustainable development goals, sustainable finance, sustainable investments, ESG principles, ETF.*

The recent global focus on sustainable development issues has led to a much broader, more inclusive, and more inclusive approach to economic decisions, including environmental and social factors. This trend has been further accelerated by the adoption of the Sustainable Development Goals (SDGs) by the United Nations General Assembly in September 2015 at the Sustainable Development Summit. In this regard, two new concepts have been widely used in theory and practice: “sustainable development financing” and “sustainable finance.” While sustainable development financing involves improving public policies to find resources and expand sources of financing for programs to achieve the Sustainable Development Goals (SDGs), the concept of sustainable finance refers to the principles and characteristics of private investment, their formation, and the incorporation of these principles into regulatory frameworks and financial markets.

Today, the Concept of Sustainable Finance has gained significant scientific and practical significance, this Concept is closely linked to the SDGs, and its supporters interpret it as one of the most important tools for achieving the SDGs ¹. However, a certain independence is observed in the development of this concept - it goes beyond the problems of the SDGs.

The concept of sustainable finance is changing the scientific fundamental theories of finance, which are much broader than the level of achievement of the BRM. It is this fact that has had a significant impact on the formation of theoretical research within the framework of this concept. This has also been reflected in the faster development of sustainable finance in practice compared to the BRM. The reason for this can be seen in the sharp increase in demand for sustainable financial instruments by private investors, which has resulted in a significant increase in investment portfolios.

sustainable finance, two of the simplest definitions can be cited:

- 1) The concept of sustainable finance was defined by D. Schoonmaker as the interaction of finance and economics to jointly solve social and environmental problems;

¹ Khudyakova L. Creation of a sustainable financing system in the European Union. *Mirovaya ekonomika i mej dunarodnye atnoshenia* , 2019, vol. 63, No. 7, ss. 16-22. [Khudyakova L. Creation of a sustainable financing system in the European Union. *Mirovaya economics I international Etnoshenia* , 2019, vol. 63, no. 7, pp. 16-22. (In Russ.)] . <https://doi.org/10.20542/0131-2227-2019-63-7-16-22>

- 2) The second definition was given by IMF experts, according to which sustainable finance is understood as the introduction of ESG principles into the process of making operational business decisions, as well as making strategic decisions on economic development and investment strategies that have a positive impact on all.

It is clear that instruments are also important in sustainable finance. Sustainable financial instruments are usually understood as “green” and social bonds, which make up a large part of the issuance of such instruments. There have also been “sustainable” ETFs, that is, shares of funds traded on the exchange based on ESG principles, shares of corporations operating on these principles, and at the same time “sustainable” bonds to finance environmental and social projects.

These instruments have emerged in response to the huge demand for financing opportunities for sustainable development projects by investors who are voluntarily limiting the potential directions of businesses. It has become customary to call them “responsible investors”. For this reason, in many cases the term “responsible investment” is used as a synonym for the term “sustainable investment”.

The World Bank interprets the concept of sustainable investment somewhat more broadly, adding the term ethical investment to it ².

There are two main reasons for the intensification of theoretical debates on the concepts of sustainable finance:

The first is the very rapid growth of sustainable investments over the past 10-15 years. According to the UN’s Principles for Sustainable Investment (PRI), the total value of institutional investors’ portfolios adhering to these principles grew from \$6.5 trillion to \$103.4 trillion (about 16 times) between 2006 and 2020. In 2018, sustainable investments accounted for 63% of total professionally managed assets in Australia and New Zealand, 49% in Europe, and 51% in Canada. In the US, this figure is below 25%, but according to Deloitte, it is projected to reach 50% by the end of 2025 ³.

The second is the complexity of ensuring the harmony of economic factors in the calculation of any investment planning, including environmental and social issues in sustainable investment planning. This situation often has an ethical character, and it is clear that the integration of moral and economic laws is a very complex process.

currently no single academic school of thought on sustainable finance in the world. However, a group of Dutch scholars have made significant progress in this direction, as exemplified by the creation of the Erasmus Platform for Sustainable Value Creation and the “Sustainable Finance Factory.” These scholars were the first to create a textbook on sustainable finance for higher education.

Active work on this issue is also being carried out within the framework of the World Economic Forum under the leadership of K. Schwab. K. Schwab put forward the idea of “stakeholder capitalism”, which is one of the main concepts of the concept of sustainable finance. This idea is based on the idea that private corporations should respond to social and environmental problems, taking into account not only their own interests, but also the interests of society. Scientists have focused on the issues of sustainable development of corporations, and have proposed the development of sustainable financial metrics in corporate governance and their reflection in financial statements ⁴.

² Inderst G., Stewart F. Incorporating Environmental, Social and Governance (ESG) Factors into Fixed Income Investment. Washington, World Bank, April 2018. 76 p.

³ 2018 Global Sustainable Investment Review. Available at: http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf (accessed 27.02.2021).

⁴ Schoenmaker D., Schramade W. Investing for Long-Term Value Creation. Journal of Sustainable Finance & Investment, 2019, vol. 9, no. 4, pp. 356-377. DOI: 10.1080/20430795.2019.1625012

Taking into account the opinions expressed on sustainable finance, we present a comparison table with traditional finance:

Table 1. Distinctive features of traditional and sustainable finance

No.	Parameters	Traditional finance	Sustainable finance
1	Objective function	Maximizing profits, minimizing environmental and social impacts	Maximizing profit, environmental and social impacts
2	Asset comparison	Factors, indices and rankings	Long-term value creation potential
3	Pricing	Efficient market hypothesis	Flexible Markets Hypothesis
4	Evaluation of results	Financial	Financial + non-financial
5	ESG-principles accounting	Superficial, in addition to the main factors	Assessing readiness for transition to a deeper, new theory
6	Asset management style	Passive investing, limited exposure to corporate prospects and challenges	Active investing, in-depth approach to the corporation's prospects and problems, activism
7	Investment chain	Long and complicated	Short
8	Asset Management Metrics	Efficiency / concentration	Financial performance and the social function of finance

The current theoretical foundations of sustainable finance are based on the “ideal future” models of the last 30-35 years. The main ones of these models are E. Freeman's stakeholder value and stakeholder theory, P. Ekins's four capital concepts, and J. Elkington's triple bottom line or “three Ps” theory.

In our opinion, the following can be cited as the main elements of the theory of sustainable finance:

1. Integrating financial and non-financial (social and environmental) goals. This brings together the goals set by investors and corporations.
2. A new interpretation of value, that is, a new approach to the value of financial assets and corporations.
3. Long-term investing and long-term value creation.
4. A new approach to market efficiency. Yu. Fama's efficient market hypothesis and capital asset valuation model are reconsidered.

The following important conclusions emerge from the above theoretical perspectives on sustainable finance:

- Financial theory is undergoing a transformation as theoretical perspectives on sustainable finance fundamentally alter traditional perceptions of the regulatory architecture of financial markets;
- Traditional finance focuses solely on financial returns and views the financial sector as separate from society and its environment. In contrast, sustainable finance sees financial, social, and environmental benefits as a single whole;
- Sustainable finance aims to achieve a broader goal than profit, namely profit combined with social and environmental benefits;
- Shareholders proposes an all-stakeholder model instead of a model;

- The concept of sustainable finance also implies a change in the role assigned to it, that is, a shift from finance as a goal (maximizing profits) to finance as a means (achieving a set of goals);
- The concept of sustainable finance is more like a model of a “desired future.” This is, in fact, also true of sustainable development itself. In the process of moving towards this future, many theoretical ideas are still being revised and may not be fully confirmed;
- The sustainable finance sector is growing very rapidly, which requires us to take its theoretical foundations seriously.

References

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