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Sustainable business and its financing: unlocking capital for long-term impact

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Sustainable Business and its Financing: Unlocking Capital for Long-Term Impact

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Abstract- **Sustainability is the balance between the environment, equity, and economy. It is the ability to maintain or support economic, environmental, or social processes over time without depleting natural resources. But it's more than preserving the natural world and its fragile ecologies. A key part of sustainability involves sustainable business practices and economic development. Sustainability in business refers to a company's strategy to reduce or avoid negative environmental and social impact resulting from its operations. When businesses follow sustainable practices, it creates a ripple effect on individuals and communities. Sustainability is not just a moral duty anymore but a core business strategy for developing countries like Bangladesh. Bangladesh is facing rising threats from climate change. Due to limited natural resource, businesses must concentrate on green investment, financing, and resources to promote sustainable company performance. This paper explores the convergence between sustainable business strategies and green financing that can unlock capital for long-term environmental and social impact. Green financing refers to financial investments and instruments that are specifically designed to support environmentally sustainable projects. Green financing benefits a wide range of stakeholders across different levels and functions of a company. Green financing directly supports and enhances corporate social responsibility, which refers to a company's ethical obligation to operate in a socially, environmentally, and economically responsible way.**

Keywords: **Sustainability, Green Finance, Economic Growth**

I. INTRODUCTION

Sustainability is the type of development that meets the needs of the present without risking the ability of future generations to meet their essential need [1]. The essence of the term sustainable is "that which can be maintained over time." It means, any society that is not practicing sustainability cannot survive for long period and will collapse or eventually come to an end at some point [2]. Sustainability is shaped by couple of different factors, including the quality of the environment, financial management, and the institutional capacity. If projects cannot satisfy the demand of the users, the inputs necessary for their maintenance and survival will not be achieved [4]. Unfortunately, in the past few years the term sustainable has been widely used to refer practices that were sounded more environmentally than others [5]. Companies that foresee the demand for green business will have an edge over the companies that merely response to new environment related regulations [6]. Sustainability is a social responsibility (Fields, 2002). Socially responsible investment (SRI) has been grown during the last two decades. In United States the SRI assets has risen more than 480% [7]. An indicator to determine the growth of green economy is looking at the increasing number of the companies that have undertaken certification for ISO 14000. It is a suite of environmental practices that has been prescribed by the International Organization for Standardization (ISO). According to ISO, in 1996 there were only 34 US companies who had ISO 14000 certification, and the number went up by 1042 at 2000 [8]. Investment in green funds is growing quickly. According to the social investment forum, a nonprofit organization based on Washington, D.C., that promotes socially responsible investment. In 1985, there were only 4 SRI mutual funds. Among them companies that were involved in unethical and environmentally destructive policies had been removed. After ten years the number increased to 55 SRIs and by the end of 2001 the number was 230. Selected funds limit their investment to companies whose policies has low impact on the environment [8]. To drive a positive environmental outcome green finance initiatives play a significant role [9]. Green finance is an intersection between environmentally friendly behavior and the financial business world [10]. Growth in the green finance market has been significantly strong since introducing green bonds. With green bonds speeding up, the government and business institutions both have been exploring opportunities and started to diversify their bond portfolio [11]. Green bonds are used solely to finance projects, that aims to reduce pollution in the environment and are environmentally friendly [11]. Footprints that are harmful can be reduced by green finance. Green finance can improve the quality of environment through reducing the risks of climate change [12]. In 2019, investors all around the world continue to be concerned about the risks that can cause through climate change and the transition to a low-carbon economy [13]. Green financial instruments can be a great help in achieving green environment. To speed up the procedure, financial intermediaries and markets have designed some financial instruments. Some of them are, green bonds, green funds, green home mortgages, green loans for private enterprise, environmental home equity programs and climate credit

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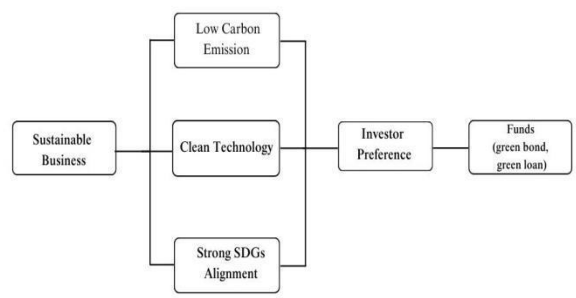
cards that helps users track their carbon footprint [14]. In future, financial intermediaries may keep themselves away from financing in risky businesses with a higher carbon footprint and look for financing in business with low carbon emission and new technology solutions [14]. Green finance encourages investment in new technologies and innovations, including renewable energy [15]. Right now the world needs huge investment in green energy systems and put an end in constructing new coal-fired power plants [15].

II. LITERATURE REVIEW

Sustainable economic and environmental development is consistently becoming a trend [16]. Business face many challenges, among them one of the most crucial strategic challenges faced by the business now days is how to become socially and environmentally sustainable. Adapting sustainability helps businesses achieving corporate strategy [17]. Businesses are facing great pressure to consider sustainability due to global economic growth, rising social disparities and devouring natural resources without any limit [13]. Businesses implying the concept of sustainable development by putting equal importance on social, economic and environmental value by applying the 'triple bottom line' framework [14]. Sustainable business model is all about generating high level firm and customer value by addressing environmental and societal needs [15]. One of the key operating forces for economic development is the financial sector. A financial sector that is well managed is attractive for investors [18]. Green finance is a phenomenon that incorporates finance and business with an environment friendly behavior. It is an involvement of many participants, such as business owners, consumers, producers, financial lenders and investors [16]. Green finance requires engaging traditional capital markets in creating and distributing a wide range of both financial products and services that provides quality returns with environmentally positive outcomes. This includes adjusting risk perceptions in order to escalate environment friendly investments and reduce investments that are harmful for the environment [6]. The green finance concept was arisen after the global financial crisis in 2008, to address the urgent need for the private financial sector to combat climate change. While promoting sustainable development, green finance also offers new opportunities to make profit for the financial sectors [17]. In china global green bond issuance has reached to a record number in 2019, with the equivalent of USD121 billion, surpassing the previous years' record of USD103 billion. Corporate sector alone has stand for USD50 billion, which is above a 100% increase from 2018. According to the European Commission (2018), at the beginning of 2017, sustainable investment fund categorized with focusing environment was only 17%. This number has risen to 23 percent at the end of 2018, increasing allocations to investments which are solely dedicated to combat climate change [6]. Investors now-a-days are using the SDGs as their benchmark, to make an impact and creating extra demand for green bonds [6]. In the previous two decades, an increasing number of corporates have started to take voluntary climate change initiatives for stakeholder pressures to reduce carbon emissions [18]. An explosive growth has been experienced by the global green bond[16]. Growth of green economics can increase conservation investments, make advancement in carbon bazaar tools, and establish green central panels that can reduce reliability on strategies that are coal based and lower carbon emissions [17]. Many Asian countries are shifting their investments to environment friendly technologies and sustainable businesses from fossil fuel to achieve sustainable development [17].

Conceptual Model



The model illustrates the mechanism through how sustainable business can achieve more financing. A sustainable business with low carbon emission, clean technology with low wastage rate and strong alignment with SDGs not only mitigates environmental risk but also combats climate change. These factors contribute shaping investor preference. Investors are more inclined to support firms with ethical responsibility and compliance with sustainability. This preference leads sustainable businesses access capital such as green bond, green loan. Investing in sustainable business confirms investors' commitment to participate in sustainable development and strengthens their image as a socially responsible person [21]. More than 60% green bonds issued are by government or semi government, which increases reliability [21]. The average maturity period of a green bond issued by an organization is 7-10 years and some may have a maturity period of 20-30 years which makes them convenient and attractive to loge term investors [21].

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III. IMPLICATION

Undoubtedly one of the most intense threats currently human civilization is facing is climate change. Growing knowledge of public about risk that can be caused by climate change has created a pressure regarding environmental sustainability, making firms more vulnerable to carbon risk [20]. Many companies have separate corporate sustainability and business strategies, as they consider sustainability issues important [19]. Awareness of hazards that are strongly related with climate change has increased and policymakers all around the globe are working on cutting carbon emissions in the past few years [19]. Europe is currently leading the global green bond market with a share of approximately 45-50% that was boosted by the actions taken under the European Green Deal [21]. Consciousness about the financial ramifications of being environmentally friendly has been risen up between investors and corporations. A company can make a huge contribution to the sustainable development of the economy by running their business using renewable energy [21]. Organizations that are socially responsible are more resilient to systemic shocks than others. Green investment is boosting GDP while lowering coal use [20]. Green bond could be a great opportunity to participate in creating new economy with high level of sustainability, factors including mentioned makes green bond attractive to both innovative and traditional investors who are seeking financial and socially return on their investment [21]. Green bonds provide sufficient fund that helps firms to focus on developing sustainable projects and also reduces the pressure of repayment as most of the bonds comes with long term maturity [20]. If organizations and countries understand what it means to be economically sustainable there would be more employment and less poverty [24].

IV. CONCLUSION

Sustainability is about long-term survival, environmentally, socially and economically [24]. The changes due to human activity in our ecosystem have been rapid more than ever in the past 50 years. Emissions of toxic substance represent one of the key human driven changes [23]. Unfortunately many corporate sustainability innovations and strategies do not reach their full potential due to several reasons one of them is financing and sometimes even fail [19]. Negative impact on earth can be reduced by financing on sustainable project [21]. As, all the funds that are raised through green bonds are used for renewable energy projects (Bisultanova, 2024). However, it attracts investors who are willing to invest in projects that comply with sustainable principles and strongly aligns with SDGs (Bisultanova, 2023). If businesses want to achieve progress towards a better, sustainable and more certain future they must require measurable and manageable objectives (White, 2013).

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