Chapter 1
Leveraging Sustainable Finance:
Strategies and Opportunities

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ABSTRACT

This chapter examines the strategies to leverage sustainable finance and deliberates on the opportunities and the challenges on the implementation of sustainable finance initiatives. Leveraging sustainable finance is critical for the seamless integration of environmental, social and governance (ESG) objectives into the economic and policy frameworks. Sustainable finance is a key powerful mechanism to address pressing global challenges such as climate change, resource scarcity and social inequality. Addressing the key challenges - including the absence of standardized frameworks. policy inconsistencies, regulatory oversight, disclosure norms - can enhance the effectiveness of sustainable finance initiatives in driving transformative change and the achieve sustainable development goals (SDGs). This chapter offers actionable insights on strategies to achieve ESG goals and address the pressing global challenges.

INTRODUCTION

The integration of 'sustainability focus' into the financial ecosystem fueled transformative changes in the global economy, shaping how the financial system operates, driving the development of sustainability linked financial products and services, and fostering a shift towards sustainable lending practices. The shift has brought in

DOI: 10.4018/979-8-3373-0350-5.ch001

a transition from the earlier perspective "maximizing the shareholder wealth" as the key objective to "optimizing the long-term value creation by effectively integrating environmental sustainability, social sustainability and ethical governance along with the financial objectives". Empirical research discourses underscored diverging views on shareholder vs stakeholder focus, for instance, Hilman and Keim (2001) argued that stakeholder considerations enhance shareholder value by developing intangible assets and competitive advantage. Shareholder wealth maximization is no longer considered as a valid guide to the creation of wealth (Fatemi & Fooladi, 2013). Stakeholder focus fosters long-term shareholder wealth creation (Harper Ho, 2010) and good environmental performance increases profits and valuations of shareholder-oriented firms (Koskinen et al., 2024). Moreover, enlightened shareholder value is optimal in today's economic and social climate. Previous research has also highlighted the positive link of a utilitarian perspective on shareholder wealth maximization and social welfare maximization (Jones & Felps, 2013). Importantly, the integration of Environmental, Social and Governance (ESG) framework along with shareholder priorities into decision making offers a structured mechanism to translate stakeholder expectations into sustainable business actions. Integrating ESG practices into business strategies enhances corporate image, competitiveness, and financial performance (Tan, 2024), operational efficiency (Wang, 2024), and thereby optimize shareholder value creation (Cornell, 2020).

Sustainable finance refers to the process of integrating environmental, social, and governance (ESG) criteria into investment and lending decisions (Ma'ruf et al., 2021). Sustainable finance consists in the incorporation of environmental, social, and governance (ESG) principles into business decisions, economic development, and investment strategies (Goel et al., 2022). The primary objective of sustainable finance is to align financial decision making with environmental, social and governance parameters, to create a positional environmental and social impact while also delivering financial returns (Adedoyin Tolulope Oyewole et al., 2024). In addition, sustainable finance also encompasses transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors (EU, 2024). Economies, irrespective of their stage in the economic development, recognized the role of sustainable finance to foster inclusive development and address the pressing challenges the world is facing. Bose et al., (2024) pointed out that the field of sustainable finance aims to address global challenges such as climate change, resource depletion, and social inequality while promoting financial returns. Consequently, the pursuit of sustainable finance is now driving regulatory priorities as the business sectors are interconnected and hence require inclusive agenda for sustainable and inclusive development (Korpes, 2024). An example is the European Union, with a comprehensive sustainable finance framework as

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