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A STUDY OF SUSTAINABILITY WITH SPECIAL REFERENCE TO FINANCIAL MANAGEMENT

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Abstract- *Sustainability is defined as the use of available resources to meet current demands without jeopardising future generations' ability to meet their own needs. This concept of sustainability relates to many parts of life and has an impact on them. The importance of financial management in the idea of sustainability is investigated in this research. Finance is a concept that refers to the transfer of funds from a surplus to a deficit situation. This study focuses on socially responsible investments (SRIs), which are widely regarded as the most essential and visible aspect of long-term financial planning. In this paper, we look at how business communities should use finance to achieve their goals and meet their social responsibilities without keeping their surplus funds. This paper also studies the sustainability challenges that the society is facing.*

Keywords: *Sustainability, Financial Management,Sustainable Development, Financial Market,Corporate Social Responsibility,*

I. INTRODUCTION

Every industry in the environment operates in order to achieve certain goals and objectives. Sustainability is a three-part term that includes economic, social, and environmental factors. Because industries use resources from the environment, they are socially responsible not only to the environment, but also to every aspect of the micro and macro economy. Current and future generations should have access to the resources they require, such as food, water, healthcare, and energy, without putting undue strain on the Earth's system. The efficient and effective use of finance to achieve a corporate goal is referred to as financial management. We're talking about sustainable financial management, and when we talk about sustainability, financial management is a big part of it. The goal of financial management is to allocate funds to areas where they are needed. Additionally, the allocated funds must be controlled, i.e. where the company is spending the money. The sustainability plan should be incorporated into the company's vision, mission statement, and strategic plan.

The major goal of implementing sustainability into a business's strategic strategy is to:

a) To ensure long-term economic viability;

b) To create value through a corporate social responsibility framework; and

c) To create value through environmental management.

The interplay of finance with social, economic, and environmental issues is considered in sustainable financial management. Investors can sway the companies they invest in to adopt more sustainable business practises. Sustainable finance has gone through several stages over the last few decades. The focus is shifting away from short-term profit and toward long-term profit generation. Businesses that implement sustainable business practises will only be able to thrive in the long run, produce long-term profits, and gain stakeholder confidence.

II. A FRAMEWORK OF SUSTAINABLE FINANCE:

Finance and capital market theory lack a clear and comprehensive paradigm that may justify the term "sustainable finance," as the preceding survey on finance, ethics, and sustainability

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indicated. Finance, on the one hand, is still primarily understood as an ethical, value-free discipline in the old neoclassical sense. On the other hand, at the firm level, intellectual, political, and business understanding of sustainability has emerged. A rising number of investors, asset managers, and financial intermediaries are willing to incorporate sustainability criteria into their asset management procedures, in addition to the so-called business case for sustainability. The finance industry is seen as one of the most important motivators for businesses to implement environmentally, socially, and politically relevant strategies.

The widely acknowledged term "sustainable finance" is still in its early stages of development. A simple semantic combination of sustainability and finance would be deceptive, as such a phrase has no common sense. It is also yet to be introduced and defined in academic circles. When Soppe (2004) examined the probable ties between the concept of sustainability and traditional finance in his contribution, he used the term "Sustainable Corporate Finance." It establishes a link between finance and sustainability, with a focus on financial intermediaries. He doesn't coin a word for sustainable finance, instead referring to socially responsible investments (SRIs). Indeed, this phrase appears to be the most commonly used in academics and practise in relation to banking that is concerned with environmental, social, and governance concerns. As a result, sustainable finance appears to be most closely associated with the term SRI, which is interpreted and applied in a variety of ways. The various approaches to SRI definitions will be discussed in the following section.

III. CSR-A TWIN CHALLENGE TO FINANCE

Due to their property rights and responsibility in the event of a default, shareholders are often viewed as the most powerful stakeholders in capital market theory. They both offer the necessary liquidity for the functioning of value, which develops processes in organisations, alongside debt holders. Both groups of stakeholders make investment decisions based on the precise mathematical trade-off between expected return and risk that is defined in traditional capital market theory models. Shareholders and debt holders are supposed to maximise their utility in the Fisherian sense, i.e. they maximise the revenue streams out of the firm to fulfil their desire to consume, because these models are typically assessed as (ethical) value-free.

Managers are expected to serve as representatives for shareholders and debt holders in order to meet their income needs, regardless of third-party interests. Managers do not have to be concerned with the social or environmental repercussions of their business in this way. In terms of agency theory, such a management approach implicitly adheres to teleological ethics. Acceptance of a social duty by businesses other than making as much money as possible for their stockholders. Friedman is referring to publicly traded companies run by managers. He was concerned not only about potential agency costs, but also about a disruption in social freedom if socially responsible managers interjected themselves into the public-private labour divide.

Freeman (1984) was the first to mention stakeholders as a new target group in addition to shareholders. Until then, stakeholders such as employees, customers, and non-government organisations were overlooked by agency theory (NGOs). However, in the 1990s, there was a growing belief that stakeholders could have an impact on corporate objectives, be crucial to a company's financial success, and oppose shareholders' demands on a company's free cash flows. The debate over the role and impact of stakeholders prepared the way for a path to sustainability that is currently dominating academic debates and efforts in practise: a firm's responsibility, i.e. its management, to offer and preserve a socially and environmentally habitable environment. Similarly to the many different interpretations of the term "sustainability," there are many different definitions of corporate social responsibility (CSR).

In the last two decades, a twin has arisen with the notions of CSR and sustainability at the firm level (corporate sustainability), which is fundamentally different yet extremely similar in how they are implemented. It includes policies to manage non-financial environmental, social, and governance objectives at the corporate level. Forming ESG objectives and strategies, as well as determining relevant activities for a company, is mostly stakeholder-driven and dynamic. A company's social capital is built up through time, and it can be an important aspect of a company's strategic dynamic capabilities. As a result, future competitive advantages should be exploited, and bigger cash flows should be generated. The topic of whether there is a link between corporate social performance (CSP), which measures the quality of stakeholder management, and corporate financial performance (CFP), which measures the entire business's financial success, is addressed by stakeholder theory.

IV. SELECTED AREAS OF SUSTAINABLE FINANCE

This section is dedicated to company-issued shares, bonds, and associated assets such as indexes. In terms of capital markets, practically every asset type can now serve as a vehicle for carrying ESG standards and enforcing effect. Exchange traded funds, hedge funds, index linked bonds, life insurance contracts, sovereign bonds, private equity, venture capital, money market funds, and bank deposits are all examples of SRI in the capital markets. In addition to these financial market-related assets, the following sections will provide an overview of areas that play a key role in sustainable finance. Emerging (non-quoted) asset classes in SRI markets that are tied to real investments like forestry, timber, or real estate fall under one category. The other category focuses on microfinance, as well as investments in social businesses, which are a hybrid of philanthropy and investing with a strong social impact. The remaining section is devoted to a summary of other subjects that connect with sustainable finance but do not yet have their own study programme (such as carbon finance) or are part of established research fields (like valuation of the firm). Given this moderately positive association, one intriguing question would be how to identify companies that exhibit the win-win impact and invest in them. In the future, the challenge will be to identify companies that provide both financial and social returns.

- **Carbon finance:**

After its pronouncement in 1997, the Kyoto Protocol was accepted in numerous nations, and the phrase "carbon finance" was coined. The so-called flexible mechanism with three categories, which facilitated the formation of unique carbon markets, particularly in Europe, lies at the heart of the Kyoto Protocol. Project-related mechanisms make up two of the flexible mechanisms. Certified Emission Reductions (CER) can be achieved with initiatives that reduce greenhouse gas (GHG) in developing nations using the Clean Development Mechanism (CDM). The Joint Implementation Mechanism (JI) permits industrialised countries to generate Emission Reduction Units (ERU) with GHG-reducing projects. According to the EU-Emission Trading Scheme (EU-ETS), which was implemented in 2005, both reductions can be traded as Assigned Amount Units (AAU) of emission certificates at exchanges.

The EU ETS is part of the Kyoto Protocol's third type of flexible mechanism, the International Emissions Trading (IET) (United Nations Framework Convention on Climate Change 1998). The development of GHG-induced climate change, new rules to minimise GHG emissions, and NGOs' efforts to promote climate-friendly policies have brought carbon concerns into the strategic and operational focus of businesses, particularly those in carbon-intensive industries. New financial risks and possibilities arose, affecting balance sheets to a greater extent. To deal with the new generation of carbon hazards and meet environmental goals, new market-based instruments have been made accessible. Carbon financing also includes investment opportunities in GHG emission reduction initiatives as well as the development of carbon-tradable financial contracts. The Carbon Disclosure Project was started by a private individual (CDP). Some institutional investors are lobbying companies to make their climate risks more transparent and cut their GHG emissions (CDP 2012).

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Another aspect of carbon finance is the valuing of renewable energy projects, their interaction in energy parks, and the valuing of energy.

V. THE ROLE OF FINANCIAL SYSTEM

The functions of the financial system are as follows:

- Produce information about potential investments and allocate capital ex ante;
- Monitor investments and exercise corporate governance after providing finance;
- Facilitate trading, risk diversification, and risk management;
- Mobilize and pool savings;
- Facilitate the exchange of goods and services

The first three functions are critical for long-term financial stability. Finance plays an important role in allocating funds to the most profitable uses. As a result, finance is well positioned to aid in strategic decision-making regarding trade-offs between sustainable goals. While larger concerns guide an organization's sustainability strategy, money is a need for achieving long-term objectives. At several levels, finance plays a part in this. Banks, for example, define their lending strategy in terms of which sectors and projects are acceptable for financing and which are not. Similarly, investment funds decide on their investment strategy, which determines which assets the fund will invest in and which it will not. As a result, the financial industry has a unique opportunity to lead the transition to a low-carbon, circular economy. The transformation can be accelerated if the financial sector chooses to finance sustainable businesses and initiatives. Investors can affect the companies in which they invest in addition to monitoring their investments. As a result, investors have a significant role in managing and guiding corporate boards. The governance function also entails balancing the diverse interests of a corporation's stakeholders, including environmental and societal concerns. Engagement with companies is a growing trend in sustainable investment, with the goal of lowering the risk of unfavourable events occurring in those companies. Finance excels at valuing future cash flows by pricing the risk of future cash flows. Because environmental challenges are inherently unclear, risk management can assist in addressing these concerns. Scenario analysis is becoming more popular as a way to assess risk and value in many situations. When the future price of carbon emissions becomes evident, investors and businesses will be more motivated to minimise emissions. Because sustainability is about the future, the essential problem is to take a sufficiently long horizon.

VI. CONCLUSION

Sustainable finance arose primarily to meet the needs of a growing number of investors seeking to make investments. Financial transactions and allocations on capital markets are reduced to a quasi-automatism under the rationalbehavior and frictionless capital markets assumptions. To get beyond the distinction between finance and investment, the investor's aim is driven by a non-monetary goal.

Sustainability challenges touch many aspects of economics, including finance, as evidenced by the range and frequency of studies on sustainable finance. It's remarkable that in some of those industries, such as real estate and energy, finance researchers are hard to come by. Sustainability should be incorporated into every area of a company's operations, not just financial. Businesses take from the environment, and it is their responsibility to give back. Firms are supposed to use resources only as much as they require to meet their needs, while also preserving resources for future generations.

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