SUSTAINABLE FINANCE SOLUTIONS

KEY POINTS FOR PROMOTING SUSTAINABLE FINANCE

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Abstract. It is a priority for every country to move towards global changes that affect environmental, social and health goals. In order to achieve these goals, it is important to have the right and sustainable financing, which will contribute a high added value to the achievement of the respective goal. All this is a long and stepwise process and is a challenge for countries no matter what their standard of development. The material analyzes and reports on sustainable financing as a main element of economic progress. Suggestions are also given for proper investment targeting to get quick and good returns.

Keywords: ***Sustainable Development, Investments, Sustainable Finance.***

1. Introduction

Sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. Environmental considerations might include climate change mitigation and adaptation, as well as the environment more broadly, for instance the preservation of biodiversity, pollution prevention and the circular economy. Also that environmental factors include mitigation of the climate crisis or use of sustainable resources. Social considerations could refer to issues of inequality, inclusiveness, labor relations, investment in human capital and communities, as well as human and animal rights issues, as well as consumer protection and diverse hiring practices. The governance of public and private institutions – including management structures, employee relations and executive remuneration – plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process. Governance factors refer to the management, employee relations, and compensation practices of both public and private organizations.

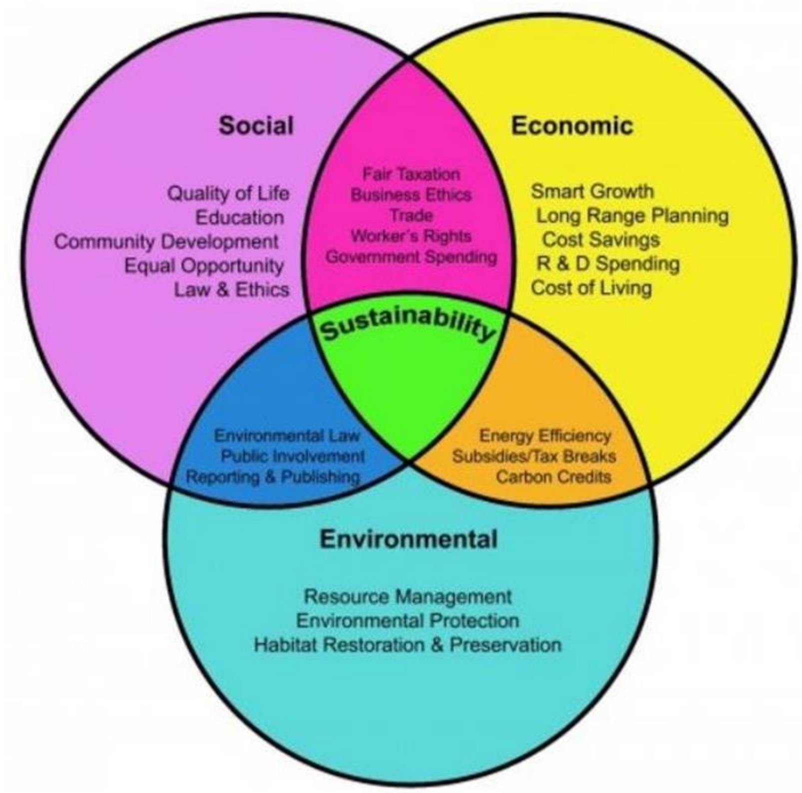

Fig.1 ESG plans

[Source: Sustainable Development Report, (2021)]

In the EU's policy context, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects. 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 factors.

2. Sustainable finance provides better returns

Sustainable investing covers a range of activities, from putting cash into green energy projects to investing in companies that demonstrate social values such as social inclusion or good governance by having, for example, more women on their boards.

Sustainable finance has a key role to play in the world's transition to net zero by channeling private money into carbon-neutral projects, says the European Union, whose Green Deal Investment Plan aims to raise $1.14 trillion to help pay the cost of making Europe net zero climate change emissions by 2050.

To ensure that sustainable investments deliver on their promises, global accounting body the International Financial Reporting Standards Foundation has just set up the

International Sustainability Standards Board to come up with new rules to validate sustainability claims.

The drive to sustainability is transforming the way we live. But what is the impact on the way our savings and pensions are invested? Welcome to the world of sustainable finance.

- Investors no longer face a choice between profit and saving the planet.
- Sustainable finance is prioritizing businesses that help the environment.
- But it also focuses on inclusion and ethical business standards.

Environmental, social and governance (ESG) considerations have come to dominate many investment decisions in recent years. Put simply, this means investing your money where it will make the world a better place.

Analysis by BlackRock – the world's biggest asset management company – found that during the height of the COVID-19 pandemic in 2020, more than eight out of 10 sustainable investment funds performed better than share portfolios not based on ESG criteria.

As well as paying higher dividends to shareholders, companies with high ESG ratings have also enjoyed stronger increases in their share price in the past five years, according to research by financial website Morningstar.

Fig.2 Companies with sustainable practices are now proving better stock market picks.

[Source: Sustainable Development Report, (2021)]

This matters because most stock market investments are made by financial institutions such as pension funds. In the United States, 80% of listed equity in leading companies is held by organizations that are looking after other people's money.

3. Importance of sustainable finance

Sustainable finance has a key role to play in delivering on the policy objectives under the European green deal as well as the EU's international commitments on climate and sustainability objectives. It does this by channeling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and fair economy. Sustainable finance will help ensure that investments support a resilient economy and a sustainable recovery from the impacts of the COVID-19 pandemic.

The European Union strongly supports the transition to a low-carbon, more resource-efficient and sustainable economy and has been at the forefront of efforts to build a financial system that supports sustainable growth.

Започналите предстоящи промени на европейско ниво са предизвикателства и пред България за достигане целите за устойчиво развитие.

Fig.3. Sustainable development

[Source: Sustainable Development Report, (2021)]

Sustainable development is linked to the goals of the UN 2030 Agenda. On 25/09/2015, 195 countries in the UN signed the 2030 plan. This plan is a Roadmap with 17 goals, 169 sub-goals and 230 indicators.
To successfully achieve the 2030 Sustainable Development Goals, we must ensure that we are well informed about the challenges we face around the world. This challenge is aimed at innovative ways of implementing the Sustainable Development Goals in different spheres. The EU's goal is to reduce greenhouse gas emissions by at least 55% by 2030 and achieve complete climate neutrality by 2050, so sustainable financing is mainly aimed at the 17 goals set out in the 2030 Plan.

As a challenge for companies to achieve an ESG strategy, they must focus their efforts on several important steps:

- Investors in Europe, the Middle East and Africa (EMEA) expect to dramatically increase their sustainable holdings. In fact, sustainable assets are projected to grow from 21% of total assets in 2020 to 47% of total assets in 2025;

- Building a sustainable portfolio tailored to specific requirements. This can take a long time, and the financial and sustainability impact may be unclear in the long term. For example, investors can look for a ready-made portfolio, with 80% of BlackRock's multi-asset ESG ETF assets seeking to track indices that meet certain ESG criteria;

- Investors must be able to find and interpret ESG data to be able to assess the measurable outcome of their investments;

Climate change is emerging as a crucial factor for investors to consider, but they are often unsure how to incorporate climate considerations into their portfolios.

According to the sustainable financing of the investors, the indicators for a ten-year period can increase proportionally with the increase in the percentage of ecological and clean energy. /fig. 4/

Fig.4 Changing the climate ratio through sustainable finance

Global economies already absorb the costs of climate change for many companies through project financing. Scientific evidence points to an urgent need to create a sustainable, inclusive and climate-resilient future. This will require no less a transformation of our current economic model into one that generates long-term value by balancing natural, social, human and financial conditions. Collaboration between different stakeholders will be vital to develop innovative strategies, partnerships and markets that will drive this transformation through sustainable and well-targeted investment.

To address these challenges, sustainable finance is a long-term process on which the World Economic Forum in 2019 had focused its regular sessions and emphasized innovative financial models and good practices that can mobilize capital for the world's sustainable development goals. All efforts are now focused on public and private institutions to create large-scale financing for sustainable development. Fig. 5 presents one of the many financing opportunities in the field of photovoltaic plants and the production of electrical energy from solar panels. It can be seen from the figure that almost 50% of the area of Europe can be successfully used for this type of ecological production and the investment in this direction is expected to have a good return.

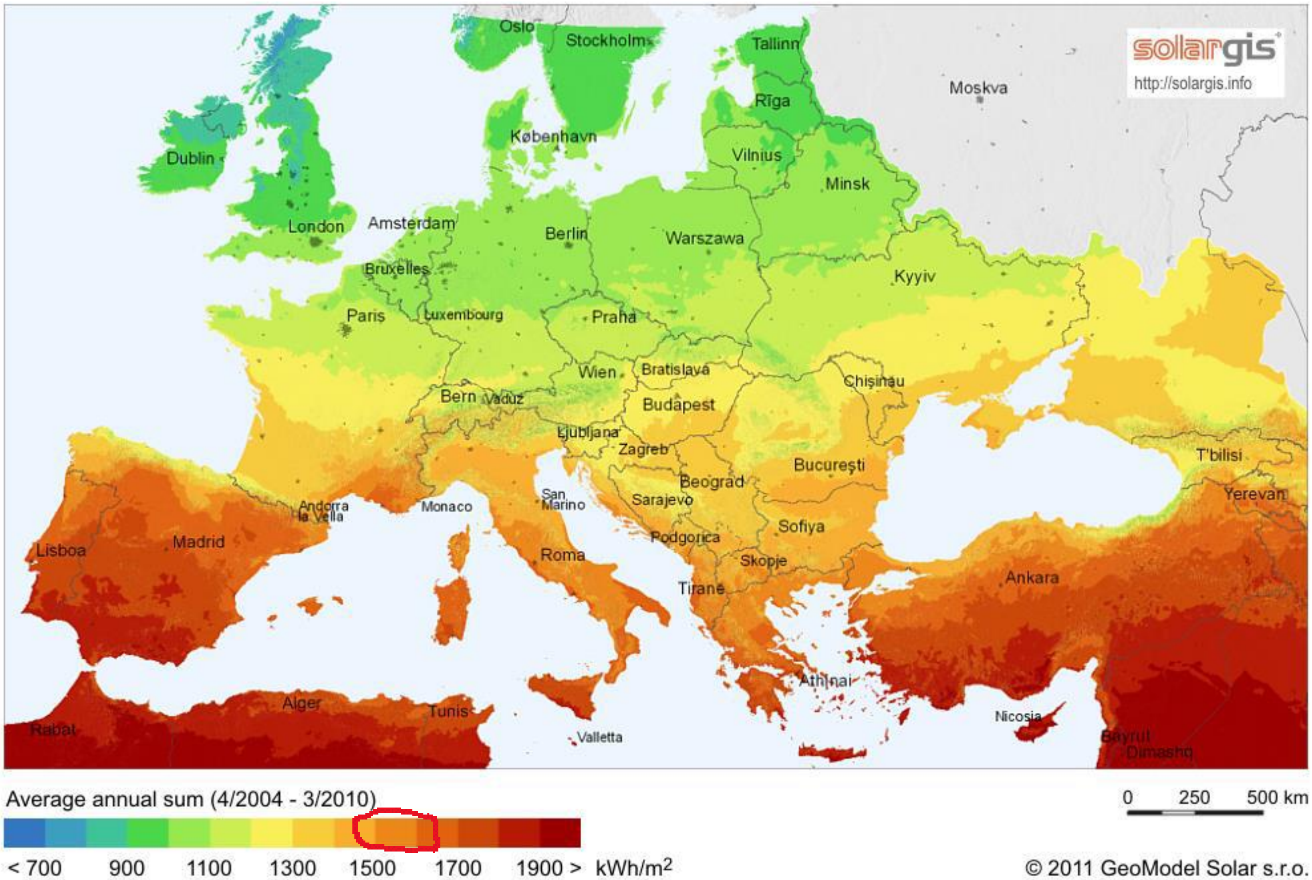

Fig.5 Potential to generate electricity from solar energy

[Source: European Central Bank Annual Report, (2020)]

The data presented in the following figure 6 provide an opportunity for further comment on them. In general, it is evident that all countries are directing their efforts towards an innovative and modern way of life, complying with the world trends for a clean and neutral economy. Yes, this is the beginning and as can be seen from the figure, all countries in one way or another are striving for the new requirements. Many of them will also rely on aid to cope, but the most important thing is that the whole world is of the same mind and moving in the same direction. The information presented below shows that for the most part and in most of the goals, companies and industries are focused on the upcoming big challenges to meet the relevant requirements, or in other words - changes are expected for a better future. /Significant Challenges remain and Major Challenges remain/. According to the Sustainable Development Report [1] and its detailed analyses, it is observed that Bulgaria has very ambitiously aimed to cover the indicators. Analyzes show that out of 165 countries in the world, we are currently in 45th place in terms of the implementation of most of the indicators, but we still have a lot to work in this direction.

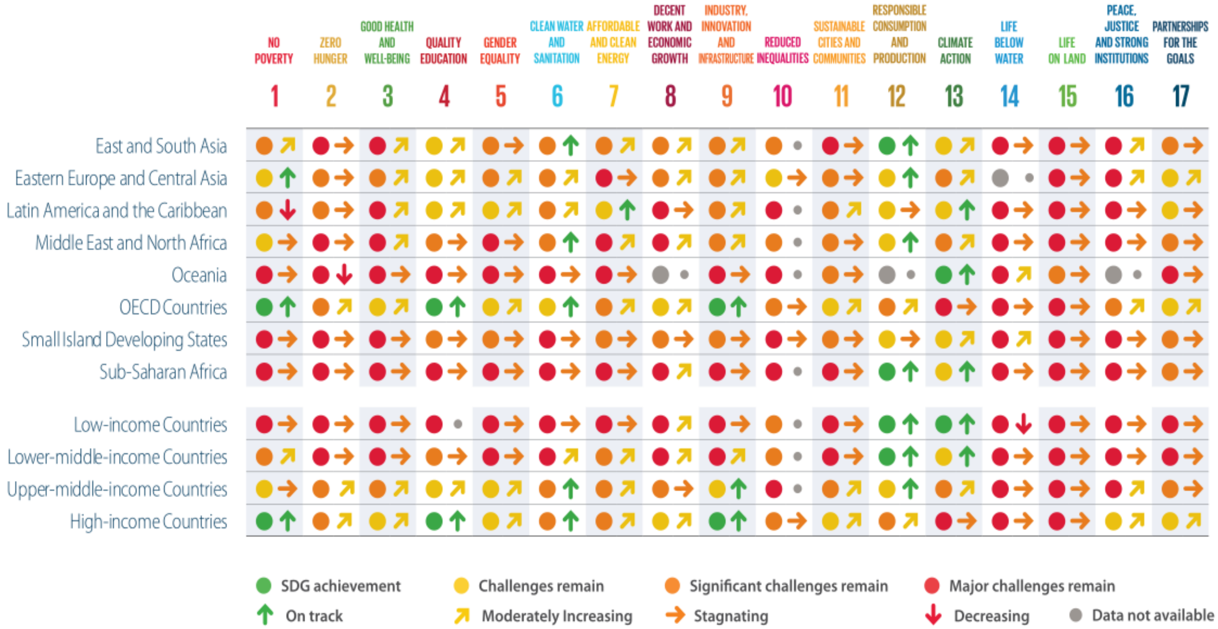

Fig. 6 SDG Achievements

[Source: European Central Bank Annual Report, (2020)]

All indicators are linked to a clean, ecological and health system, and it is most rational and efficient to start with some cardinal steps. For example, priority actions to achieve carbon neutrality through sustainable financing can be:

- ✓ Investing in environmentally friendly technologies;
- ✓ Investing to support innovation in the industry;
- ✓ Investing by introducing cleaner, cheaper and healthier forms of private and public transport;
- ✓ Investing in decarbonization of the energy sector;
- ✓ Investing in improving the energy efficiency of buildings, etc.

As a **conclusion**, it can be noted that:

The biggest challenge facing the Bulgarian industry is to replace old equipment and technologies with the latest generation of informational and robotic ones through sustainable investment. This will ensure stability for new and upgraded technologies. Without a competitive industry, no country can be successful in world markets today;

The use of a digital software platform to manage the activity of any industry is not only a necessity, but can also be seen as a competitive advantage for increasing the company's capacity, realizing growth opportunities and maintaining financial stability.

In accordance with the action plan for sustainable development financing adopted by the EC, it is extremely important that companies comply with the Classification and Assessment System for Investment Sustainability, the so-called Taxonomy. This will contribute to even greater security through transformation and the creation of sustainable investment products. In this regard, it is necessary to encourage industrial investors, taking into account sustainability when making decisions about proper financing together with banking institutions or not, to inform the public and their customers of the new changes.

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