



RESEARCH ARTICLE

Sustainable finance – A master key to sustainable development

Payal Saxena

Abstract

Sustainable finance is playing an increasingly unavoidable role in achieving the SDGs at the global level. It demands contributions from all stakeholders for holistic development in any country. The primary need for this is financial accessibility. Traditional finance can meet the demand to some extent, but for the long-term future and its growth, it is crucial for all entities to appreciate the importance of sustainable development through sustainable finance. This study aims to justify the role and positive influence of sustainable finance on sustainable development. With the use of a well-structured questionnaire, data is collected from 1201 respondents, including individuals and financial professionals in the South Gujarat region. Responses are analyzed through various advanced statistical techniques, such as Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM). Using these advanced statistical techniques, it is found that Sustainable finance has a significant influence on achieving continuous development. The results of current research indicate that sustainable finance can assist in achieving specific SDGs, such as no poverty, zero hunger, and environmental issues. Additionally, it is found that it is essential for all entities to come together to achieve sustainable development through the availability and utilization of sustainable finance. Hence, the study would help financial service providers, companies, and policymakers in preparing for the roadmap of sustainable development.

Keywords: SDGs, CFA, SEM, Sustainable finance, Sustainable development.

Introduction

Sustainable development demands the attainment of supportable social, ecological, and economic growth. Three main requisites of sustainable development are environmental sustainability, social sustainability, and economic sustainability. All of them need income and an improved lifestyle. Hence, it is necessary to improve these three areas without compromising their own development. Sustainability and development are the two components of SDGs. Both have counterproductive effects at time though they move together (Sharpley, 2000). Lélé (1991) added that, independently, none of them can exist, and so there cannot be any contradiction between them. Henceforth, to satisfy the current demand, economies of scale should be achieved

while also allowing for long-term reproduction and renewal. Moreover, the study by Tomislav *et al.* (2018) suggests that the ecological system empowers and provisions people to live and transmit human activities. Accordingly, sustainability can hardly be accomplished without natural resources.

Governments all over the world have set sustainable development goals (SDGs), but governments cannot meet the needs of everyone for sustainable development. Moreover, the Environment and Development Commission in 1987 stated that for sustainable development, everyone needs to act in a sustainable manner. Management of sustainable finance can provide both financial and non-financial rewards for contributions towards sustainable development.

Climate change has become the most serious obstacle to achieving the SDGs. Also, especially in developing countries, people are finding difficulties in accessing necessities. Countries are facing difficulties in managing the balance and equal distribution of natural and socio-economic resources to reduce the demand-supply gap of necessary products. Sustainable development encompasses economic growth, social equity, and ecological sustainability. These demands the achievement of economies of scale, but at the same time, it negatively affects the environment due to the increasing use of technology to reduce the demand-supply gap. Therefore, for a developing country like India, it becomes more challenging to achieve the multidimensional aims of

BRCM College of Business Administration, Athwalines, Surat, Gujarat, India.

***Corresponding Author:** Payal Saxena, BRCM College of Business Administration, Athwalines, Surat, Gujarat, India., E-Mail: payal.saxena@brcmbba.ac.in

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social development effectively, as a considerable population lives in rural areas who survive on agriculture and related industries (Sathaye *et al.*, 2006).

The research of Ng *et al.* (2020) recommended that ESG performance is the dominant pillar of Sustainable Development, requiring a joint determination among various industries with a superior emphasis on the importance of finance. The financial sector must work diligently to impact the supervision of funds and the advancement of sustainability-related matters. Incorporating ESG considerations into financial planning for economic activities can be practiced. Ultimately, financial professionals must incorporate extensive expertise in investment allocation towards ESG practices.

In conclusion, it is clearly evident that achieving sustainable development requires a 360-degree contribution from all individual entities to authorities. However, money, being the basis of survival, demands a continuous flow towards micro and macro-level operations for overall development at the world level.

Research Gap

A significant amount of research has been conducted on the importance of sustainable capital for sustainable development. Yet, the connectivity of each potential entity is not combined for the concrete availability, implementation, and use of durable capital and its contribution to sustainable development. Hence, this study is conducted in line with identifying the connections among all stakeholders towards achieving successful coverage of sustainable finance for sustainable development. Additionally, it is observed that traditional finance is meeting the demand for money, but the credibility criteria do not allow lending to the financially weaker section of society, hindering them from satisfying their basic needs, such as hunger and education. The change in such policies can meet the requirement of sustainable development through sustainable finance.

Review of Literature

Sustainable finance not only requires the continuous flow of capital in any economy, but it also demands the productive and necessary use of money. Ryszawska (2016) found that the two major problems related to environmental and social context (Income inequalities) are extremely thought-provoking for economic development. It dictates continuous efforts from all entities, including companies, industries, policymakers, consumers, engineers, scientists, professionals, and many more. Hence, Sustainable finance becomes a prime requisite for sustainable development because the purpose of finance has shifted from profit maximization to sustainable progress and green economy.

As stated by Vandekerckhove and Leys (2012), contributors must understand the relevance of the positive influence of sustainable finance in sustainable

development. Sustainable finance focuses on Financial, social, and environmental returns, in addition to financial returns (Schoenmaker, 2022). Instead of only financial growth, socio-ecological return is the fundamental element of sustainable finance. (Ziolo *et al.*, 2021) recommended that sustainable finance and sustainable development are strongly connected. Governments all over the world must work towards achieving the SDGs, and for that, capital funding is necessary. The outcome of their research proved that the successful attainment of the SDGs requires the right execution of a sustainable financial model in the country.

The government is responsible and accountable for maintaining the socio-economic environment of the country by establishing a set of norms for a durable future (Friedman, 1970). However, no single entity can attain sustainability independently, so collectively, governments, companies, and citizens must put in efforts to achieve the United Nations' Sustainable Development Goals (Schoenmaker, 2022).

For sustainable growth, all capital should be allocated towards achieving the SDGs. Streimikiene *et al.* (2023) found that durable money can facilitate sustainable progress and long-term finance by strengthening cooperation among regulatory authorities, policymakers, and political support. Additionally, one should understand that future capital risks arise from environmental and sustainability matters (Aspinall *et al.*, 2018).

Microfinance supports low-income individuals by decreasing the cost of social exclusion and facilitating access to financial services (Ravi, 2012). (Caldecott *et al.*, 2022) found the relevance between the sustainable finance model and SDGs. A country must adopt a suitable version of a sustainable finance model to achieve the Sustainable Development Goals (SDGs).

The use of green funds in green structures and securities should be increased in the nation to access more money and promote development not only in the present but also in the future (Mohd & Kaushal, 2018). Edmans & Kacperczyk (2022) said that consideration of SDGs from top management can satisfy the requirement of ESG to some extent. Companies must promote sustainable finance through their business operations and corporate social responsibility (CSR) activities to attract investors. For the speedy growth of sustainability, three key drivers are identified: financial relevance, involvement in non-financial goals, and investor preferences.

Singh (2014) studied that by providing access to safe, manageable, and reasonable credit to the poor and vulnerable segment of the country, Indian banks contribute significantly to the development of the economy. Provision of rational finance for weaker section should be aimed. Without banks and financial institutions, it is not possible for any nation to accelerate the attainment of the SDGs.

According to Fullwiler's (2015) study, traditional finance is inadequate for achieving SDGs, as it lacks a holistic approach and outlook towards socio-ecological concerns, especially in rapidly changing social, environmental, and economic conditions (Ziolo *et al.*, 2019).

Environmental problems and social inequalities can be dealt with by ethical and sustainable finance practices (Ferri *et al.*, 2019). The strengths of all types of banking and financial operations, in line with fintech, can be leveraged to achieve the desired purpose. Microfinance can contribute significantly to nurturing fiscal enclosure by forming sustainable and responsible investing capital. They address the role of the current generation in considering environmental issues as well and found that youngsters are key assets in the rapid progress of sustainable development.

In today's era, where sustainability is the primary goal, it is essential to enhance the wealth of all stakeholders worldwide, and companies must therefore work effectively towards this objective. Companies that fail to adapt to the changing needs of the nation at large will be unable to create long-term value and, consequently, will not sustain themselves in the market. For sustainable value creation, it is essential for businesses to contribute to social and environmental development. This would result in value creation for the company as well as its stakeholders, allowing the movement towards sustainable development (Fatemi & Fooladi, 2013). Moreover, the purpose of any financial system is to transfer savings from surplus to deficit economic sectors. The method of transfer depends on the need and objectives of the provider, receiver, and the context in which the capital is operated. There is a need for green and sustainable investment to achieve the SDGs, and the financial market plays a very important role in this regard. The size of the investment, risk, and time, along with other factors, can determine the availability of capital for green or sustainable investments. Hence, it becomes important to develop the structure of sustainable finance, consisting of key participants and issues related to sustainable finance. Moreover, the evaluation of sustainable finance performance should be ongoing to facilitate constant review during implementation. For the evaluation, both financial and non-financial indicators should be identified to measure the environmental and social impact (Sajid *et al.*, 2023).

However, demand for sustainable finance and investment instruments is gaining prominence at the global level. This is encouraging for financial institutions, corporations, and governments to seize the opportunity for the flotation of sustainable finance and continued progress at the world level (Singhania *et al.*, 2024).

The research by Jha and Bakhshi (2019) states that increasing awareness of the environmental problems has led corporates to take initiatives to protect the environment. GOI and Indian companies are appealing to investors for green

finance investments to serve the purpose of generating returns for investors while also protecting the environment. For the same aim, it is also necessary that the government introduce and support a clear green investment strategy for sustainability. A transparent regulatory framework can build trust and confidence among investors, encouraging them to invest in green finance. In emerging markets, it is necessary to create awareness about both the need and purpose of green finance, so that attracting investors becomes easier. With domestic investment, foreign investment can also be attracted and invited, as sustainable development is a necessity for all.

Popescu *et al.*, (2021) studied the increasing demands of investors for environmental investment. Investors are expecting investments in green finance to yield good returns. Therefore, it is necessary for companies to present investment opportunities that allow for monetary goals to be achieved without harming the environment. It is found that the proper assessment criteria must be identified to evaluate the performance of investment avenues in line with the priority decided in accordance with sustainability. This would insist companies to effectively invest in sustainable alternatives and projects. Traditional finance needs to be more ecological for transformation to a low-carbon economy (Chen *et al.*, 2022).

According to the study by Wang and Zhi (2016), it is observed that traditional finance has a negative impact on the environment, while green finance has a positive impact on any economy. The impact of carbon dioxide on wellbeing and the environment can be reduced through carbon finance to support the decarbonization process (Simon *et al.*, 2012). Research by Nyangon (2016) suggests that Eco-friendly finance considers each aspect of the market, business models, protocols, public finance, and infrastructure development. Green and Carbon finance are part of environmental finance. On the other hand, the financial need of economic growth and community backing are taken care by development finance. Credits or government endowments, certified administrative agencies, and inter-governmental organizations are expected to promote the continuous growth and well-being of emerging nations. Such credits are demarcated as advance finance (Tierney *et al.*, 2011).

Charles & Philip (2020) studied that in the present era, the whole world is looking toward sustainable development, but the world is suffering from environmental issues and a deficiency of natural resources. For any country, it is challenging to strike a balance between people and nature for sustainable development and economic growth. Green finance appears to be a good initiative for achieving social development – Environment and Money. The framework to promote green finance needs to be developed by government by taking into

consideration the revision of financial policies for banks and financial institutions. Additionally, the implementation of good corporate practices can encourage green finance by promoting green product investment to conserve the environment and mitigate the problem of climate change.

Ziolo *et al.*, (2021) stated that optimum allocation of finance is mandatory for holistic development. Hence, a good financial model must be implemented by providing ease of living to all and, at the same time, controlling the misuse of the financial system. The same purpose can be served by categorizing the financial needs of borrowers and accordingly, financial policy can be formulated. The capital can be divided into various types according to its objectives, such as microfinance, green finance, and development finance. Accordingly, rules and regulations can be implemented for different types of finance. So, it would allow the use of capital in the long term as well by creating long-term value.

To encourage the responsible and sensible management of money, it is necessary to divert investment towards socially responsible investments. However, investment decisions are often made from a monetary perspective only (Scholtens, 2006), which makes social development a complex task. He differentiates finances, particularly sensible investment, as the driver of sustainable development. He defined the interlinkage between economic manufacturing and environmental events, and financial development is tied to economic growth. An efficient process of the capital market is necessary to ensure the effective transition of money within the nation, thereby diminishing monetary risk and providing steady funding in the country (Ziolo *et al.*, 2019).

In current times, many institutions are requiring financial companies to incorporate ESG norms into their organizational policies for the implementation of the SDGs. However, the gap between the sustainability of resources and numerous pecuniary markets should be reduced due to the perspective towards sustainable development and profit maximization (Pisano *et al.*, 2012). Sustainability is associated with the future, hence uncertainties remain the key challenge (Schoenmaker, 2022; Cavagnetto *et al.*, 2022).

According to a study by Scholtens *et al.* (2008), socially responsible investment motivates responsible finance, which in turn encourages environmental and social activities. Due to the impact of different types of finance, it is said that sustainable finance is the combination of all types of finance, thereby connecting all micro, macro, and socio-economic issues (Schoenmaker, 2022). Therefore, sustainable finance becomes a prerequisite for the financial system to facilitate the continuous flow of money in pursuit of sustainable development. In this regard, young investors must be motivated to gain financial literacy, apart from their financial knowledge, for a financially strong and healthy society (OECD).

According to this definition of Financial Literacy,

the application of financial knowledge depends on an individual's attitude and perception in learning and implementing it in their financial and investment choices. The lack of financial literacy is hindering the investment decisions of many individuals, especially those in Generation Z. It has also been found that more than 70% of individuals are interested in sustainable financial investments but are unable to invest due to a lack of financial literacy. On the other hand, people with more financial knowledge are less interested in sustainable finance investment due to less returns. From these two inconsistent findings, it can be said that sustainable financial investment can be amplified by inspiring investors in this area and by encouraging them about sustainable development. Likewise, awareness about financial literacy needs to be increased in society to build confidence among investors in sustainable financial investments (Ribau *et al.*, 2023).

The results of Jain's (2023) study show that improving financial knowledge and awareness has influenced the investment of many investors in sustainable finance for sustainable development. Individuals exhibit a great level of passion for sustainable finance for the country's progress, and this attachment inspires them to invest in green finance, contributing to the nation's development. However, investors still suggest the need for some incentive to promote sustainable finance, as the majority of investors expect a good return and safety from their investments.

According to the study by Jansson & Biel (2011), it is suggested that a certain type of investor is critical when making sustainable investment decisions. Individuals have their own set of principles for both sustainable development and finance. For instance, Private and institutional investors give more attention to socially responsible investment (SRI) compared to professional fund managers when selecting investment options. However, even after variations in their opinions and beliefs towards SRI, all of them want to increase their investment in it. Compared to any other group, institutions are investing more in SRI. Hence, there is a need to incentivize such investment avenues to attract more investors preferring high returns.

Abrudan *et al.* (2021) found that people prioritize increasing shareholder value over improving the value of all stakeholders. The investment plan and decisions of the next generation are derived from this psychological impact. Therefore, these youngsters would be unable to develop valuable investment strategies that address the non-monetary needs of society at large and would focus solely on monetary aspects. Responsible investment behaviors should be encouraged among future investors immediately to attract them to ESG investment. As the future generation also deserves a harmless environment, they are considered key stakeholders in the research. Hence, the conversion of an idea into practice demands the collective efforts of all through proper direction and

investigation. They found that funding for sustainable projects can be allocated according to the financial risk involved. Investors understand and accept the importance of sustainable finance and growth, yet, their current income and risk capacity do not allow them to take emotional risks with their hard-earned money by investing in sustainable projects. Hence, for global welfare, investment advisors need to develop incentives for sustainable investment by investors after understanding the rationale behind such investments through SDG capital. However, the need for financial return and sustainable development can be gained through the acceptance of heterogeneity among investors.

Schramade & Schoenmaker (2018) suggest that sustainability and business growth go hand in hand, and therefore, connectivity should be developed among business models, competitive positions, value drivers, and sustainability. It recommends that a comprehensive fundamental analysis of the corporations must be conducted to examine their preparedness for transitioning towards sustainability rather than relying solely on ESG ratings.

According to the literature review, effective results can be achieved through the collective implementation of a financial strategy that incorporates a durable financial structure and models. In this study, these categories are merged to derive the influence of sustainable finance, which can ultimately contribute significantly to the attainment of various Sustainable Development Goals (SDGs).

Research Methodology

Objective

The study aims to analyze the achievement of SDGs through the structure of sustainable finance.

Significance

The study would assist policymakers and stakeholders in realizing the importance of their role in the nation's holistic development by contributing towards the achievement of the SDGs.

Type of Research and Data Collection

Descriptive research is used to study the association between sustainable financial growth and supportable money. The information is being collected through a Likert-based structured questionnaire and Primary data collection mode. The questionnaire was developed using well-defined constructs from existing literature on sustainable finance and sustainable development. All the dimensions of the identified constructs were measured using a 5-point Likert scale, indicating strongly disagree to strongly agree, from 1 to 5, respectively. Also, Secondary Data is collected through News articles, government reports and research articles/papers.

Sample Size and Techniques

Data from 1,128 individuals and 73 professionals were collected through a non-probability convenience sampling method. As data are to be collected from different participants located in various geographical locations, a non-probability convenience sampling method is used.

Analytical Tools and Techniques

Data is analyzed through descriptive and inferential statistics using SPSS and SmartPLS. Advanced statistical techniques, such as confirmatory factor analysis (CFA) and structural equation modeling (SEM), are used to examine the responses collected. For the validation and generalizability of the findings, robustness checks for nonnormality, endogeneity, unobserved heterogeneity, and nonlinearity are performed using a non-probability sampling method.

Results

Conceptual Model Development

Sustainable development through sustainable finance is possible only if the quality of life is collectively considered in the context of a comprehensive transformation of the financial structure and strategy. In this study, a model is developed using the same logic, considering different factors. Important elements, such as microfinance, development finance, responsible finance, and environmental finance (Streimikiene *et al.*, 2023), are studied to examine their role in sustainable finance, which leads towards sustainable development.

The KMO Value, as shown in Table 1, is more than 0.7 (compared to the Kaiser value of 0.6) (Kaiser, 1974), indicating the acceptable adequacy of the responses. Bartlett's significant value of 0.000, against the benchmark value of 0.05 (Bartlett, 1954), indicates a strong relationship among

Table 1: KMO and Bartlett's result

<i>KMO Measure of Sampling Adequacy.</i>	<i>Bartlett's Significant Value.</i>
0.772	0

Table 2: Correlation among latent variables

	<i>DF</i>	<i>EF</i>	<i>MF</i>	<i>RF</i>	<i>SD</i>	<i>SF</i>
DF	1	0.566	0.656	0.508	0.735	0.87
EF	0.566	1	0.644	0.775	0.71	0.755
MF	0.656	0.644	1	0.693	0.448	0.791
RF	0.508	0.775	0.693	1	0.513	0.84
SD	0.735	0.71	0.448	0.513	1	0.672
SF	0.87	0.755	0.791	0.84	0.672	1

*DF: Development Finance, EF: Environmental Finance; MF: Micro Finance, RF: Responsible Finance, SD: Sustainable Development, SF: Sustainable Finance

Table 3: Reliability and validity check results

	<i>Alpha</i>	<i>Rho</i>	<i>CR</i>	<i>AVE</i>
Development finance	0.764	0.795	0.823	0.575
Environmental finance	0.829	0.847	0.887	0.506
Micro finance	0.721	0.713	0.78	0.61
Responsible finance	0.772	0.793	0.832	0.577
Sustainable development	0.844	0.875	0.86	0.664
Sustainable finance	0.893	0.877	0.903	0.547

Table 4: F n L values of latent variables

	<i>DF</i>	<i>EF</i>	<i>MF</i>	<i>RF</i>	<i>SD</i>	<i>SF</i>
DF	0.881					
EF	0.566	0.815				
MF	0.656	0.444	0.796			
RF	0.588	0.475	0.693	0.773		
SD	0.735	0.41	0.448	0.513	0.762	
SF	0.687	0.555	0.691	0.584	0.572	0.758

*DF: Development Finance, EF: Environmental Finance; MF: Micro Finance, RF: Responsible Finance, SD: Sustainable Development, SF: Sustainable Finance

Table 5: HTMT values of latent variables

	<i>DF</i>	<i>EF</i>	<i>MF</i>	<i>RF</i>	<i>SD</i>	<i>SF</i>
DF						
EF	0.89					
MF	0.842	0.546				
RF	0.776	0.576	0.776			
SD	0.834	0.435	0.663	0.581		
SF	0.512	0.612	0.518	0.63	0.701	

Table 6: SEM results

<i>Latent variable</i>	<i>R Square</i>	<i>RMSE</i>	<i>MAE</i>	<i>Q2 Predict</i>
DF	0.755	0.578	0.598	0.658
EF	0.566	0.503	0.486	0.625
MF	0.622	0.564	0.561	0.576
RF	0.783	0.536	0.453	0.623
SF	0.762	0.57	0.444	0.589

the variables of the identified factors. CFA is performed to measure the wellness among variables representing the constructs. In Table 2, the correlation among the LV of CFA indicates strong consistency among the variables.

Reliability and Validity Check Results

Table 3 gives the reliability and validity checks.

Table 4 shows the F n L values of latent variables.

Table 5 shows the HTMT values of latent variables.

The results of SEM are summarized below using the benchmark of a study done by Hair *et al.* (2011)

The outcome of SEM, as shown in Table 6, indicates that the identified factors have substantial explanatory power (R-squared), a significant effect (RMSR and MAE), and predictive relevance (Q2 Predict), as shown in the table above. The results meet the benchmark criteria set by Hair *et al.* (2011), Shmueli *et al.* (2019), and Hair *et al.* (2019).

Discussion

The present study aims to demonstrate the determination of sustainable finance and the impact of durable money on continuous development. The existence of encouraging relevance between sustainable finance and development is evident after analyzing the study's statistical results. Additionally, the components of sustainable finance are found to be positively related to it. This is consistent with the results of the study conducted by Streimikiene *et al.* (2023). The presence of sustainable finance is an unavoidable element when working towards the SDGs. The financial system and financial model require revision for better utilization of funds. So, banks and FI should develop the way for financial inclusion and financial awareness should be created for the same. These findings align with the research of Fatemi and Fooladi (2013).

The study highlights that sustainable finance is more effective than traditional finance in advancing the SDGs. It aims to demonstrate the positive impact of various components of sustainable finance, such as microfinance, environmental finance, and responsible finance, on sustainable development. Using statistical methods such as CFA and SEM, the study reveals strong, positive relationships between sustainable finance factors and SDG outcomes. However, while it highlights the importance of sustainable finance, it does not offer a direct comparison with traditional finance models in terms of achieving the SDGs.

Conclusion

Contribution towards sustainable development is the duty of every individual, but without access to capital, it is impossible to achieve it. Hence, there is a need to revise the existing financial policies in accordance with the capital requirements. Special consideration of finance for sustainable development has become the mandate for which governments, companies, and other stakeholders must play a key role.

Limitations and Future Scope

The research is conducted to examine the impact of a single factor on sustainable development in a limited region. In the future, the research can be carried out with other determinants and a larger region to generalize the results and provide practical implications. Additionally, the precision of specific components of identified constructs, as

well as the specific role of authorities and other stakeholders, can be studied.

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