Abstract:


JEL Classification: G00, O16, Q01, Q56

The most common definition of Sustainable Development is about meeting the “needs of the present without compromising future generations’ ability to meet their own needs”. This very broad definition captures well the essence of the subject – however at the same time leads us to ask how to achieve it. Elkington, the creator of the well-known concept of the "Triple Bottom Line" or "People, Planet & Profit" suggests four ways of the development through "The Breakthrough Compass". Depending on the power of the changes and the number of the people, effects upon the future progress could range from the negative breakdown to positive breakthrough. According to the author, to achieve the breakthrough and stop the overrunning planetary boundaries, humanity will have to shift their mindsets, technologies and business models (Elkington, 2017).

Regarding ‘The Breakthrough Compass’ there is a need to pay attention to the financial system. There are at least three reasons for this. Firstly, the financial system is an inseparable component of human development. Secondly, the financial system also has an exponential scale of impact, and thirdly, it influences the enormous number of people. This means that the financial system plays a crucial role between the future’s breakdown or breakthrough.

The importance of the role of the financial system has been shown during the two crises: the global financial crisis and the COVID-19 crisis. The former could be considered as the breakdown, while the latter has the chance of being a breakthrough – at least to some point. Nonetheless, these crises have also shown the importance of the social and governance risks with a mixture of the environmental risk – also regarding the latest risk factor especially concerning the COVID-19 crisis (Plowright et al., 2015).

The subjects of sustainability, financial systems and their role, significance and complementarity have been outlined in the book Finance and Sustainable Development: Designing Sustainable Financial Systems edited by M. Ziolo. In the book, the author regarded his main task to be the delivery of the methodological approach for designing and assessing the sustainable financial systems, while taking an approach of prioritizing environmental, social and governance risk factors known behind the ESG acronym.

The intention behind the main idea was to take into consideration the ESG risk factors in the decision-making process of financial institutions and to identify and assess their impact on sustainable financial systems. To achieve this goal, the approach of clear division into sustainable and unsustainable financial systems was taken.

The whole book consists of the Introduction and thirteen chapters. However, it could be divided into three informal parts. The first part consists of two chapters (Chapter 2 and Chapter 3) which introduce the readers to the subject of sustainable finance and ESG factors. Chapter 2 addresses various research questions related to the inclusion of sustainable development’s multidimensional, holistic, and long-term perspectives in finance and points to necessary changes in the academic curriculum aligned with the concept of sustainable finance that could enhance the efficiency of sustainable funding. Thus, this chapter fills a significant gap in the existing literature regarding sustainable development issues.
Chapter 3 explains the relationship between the various components of sustainable development with the main emphasis on ESG risk factors – factors that constitute an increasingly important aspect in the risk management process. At the same time, this chapter answers the questions on which factors are most important for sustainable financial systems and what the relationships between these factors are by using the research tools in the form of fuzzy cognitive maps.

The second informal part of the book includes Chapter 4 to Chapter 10. Each of the chapters focuses on a different part of the financial system, focusing mainly on different financial sectors. In Chapter 4, the central focus is on the sustainable, socially responsible or green banking sector. The two perspectives – micro and macro – were taken. The micro-level perspective points out the specifics of the banks’ business models and the sustainable financial products/services developed by banks. This approach helps diagnose the role that sustainable banking plays in addressing environmental and social issues. The macro-level perspective is based on the analysis of the international framework, guidelines and principles of responsible banking issued by various organizations whose primary purpose is to help banks monitor and finance socially and environmentally sustainable economic activities. The final outcome of this analysis is presented by maps that illustrate the European countries’ banking systems and allow to identify those countries where involvement in sustainable financial behaviour is most developed.

Chapter 5 describes how financial institutions use to monitor and respond to the market needs in terms of adapting the financial products and services, such as customer segmentation, designing sustainable value in business models, and designating sustainable financial products.

The following chapter (Chapter 6) centers on the insurance sector and its problems and challenges that must be faced in the context of the emergence of new challenges created by ESG risk factors with an emphasis on the environmental aspect. The chapter also provides information about Sustainable Insurance Forum initiative, which is intended to create the global network of insurance supervisors and regulators in the area of sustainable finance.

The main focus of Chapter 7 is the capital market which is considered as a very flexible tool that could meet the economic, environmental and social factors. Moreover, the capital market has become the leading promoter of structural reforms of traditional enterprises. Therefore, the purpose of the chapter is to take a closer look at the role of the capital market in promoting sustainable development.

Chapter 8 presents the definition, meaning and essence of crowdfunding, and presents its market size and structure. This chapter explains the rationale of crowdfunding as an innovation and verifies the compliance of the crowdfunding assumptions with the concept of sustainable financing in micro and macroeconomic perspectives. The additional value of this chapter is the Boston Consulting Matrix, which classifies the crowdfunding projects by financial risk and value creation.

Chapter 9 aims to provide an answer as to whether sustainability rating agencies can meet the requirements set by investors who value and promote the idea of sustainable development and assess the impact that investors’ requirements may have on the Sustainable Rating Industry trajectory.

The state and public finances role in undertaking activities supporting the implementation of Sustainable Development Goals is presented in Chapter 10. This chapter shows why strategies and government policy must systematically change production and consumption patterns and encourage the protection of natural resources. The importance of ecological taxes as an instrument of influencing the attitudes of enterprises and households was presented, as well as the role of public expenditure in financing investments and technologies conducive to environmental protection and social inclusion.

The third informal part that consists of the remaining chapters contains information mainly about the processes combined with sustainable finance and sustainable financial system. Chapter 11 presents information about sustainable investments, such as a typology of sustainable investment and its role in achieving sustainable development goals. It also explains the factors, trends and different evaluation methods used by investors to conduct research on responsible investment. Furthermore, it outlines the instruments used and identifies barriers to the diffusion of responsible investing. In this chapter, very interesting innovative financial instruments based on sustainable investing can be found, especially those in the form of listed equity, bonds, hedge funds, and private equity.

Chapter 12 focuses on the theoretical aspects referring to the financial system, financial stability and sustainability. This chapter presents the methodological approach that helps develop recommendations for a sustainable financial system and proves that environmental, social, and governance risks do matter.

Chapter 13 presents the mechanisms of controlling and monitoring sustainable goals on the example of India. The chapter highlights the importance of the need for an external audit of sustainability reports. This
chapter can definitely serve as a useful source of information for various groups, including decision-makers, regulators as well as scientists and companies.

In Chapter 14, readers are introduced to an overview of the new trends and non-financial reporting challenges. They can also learn about historical developments that allow them to better understand the prevailing trends in non-financial reporting.

The book is an interesting and valuable voice in the discussion of the role of financial systems in Sustainable Development. A major advantage of this book is that it comprehensively deals with issues related to the subject of a sustainable financial system. At the same time, it is the first book that looks at sustainable financial systems as opposed to sustainable finance in general.

The authors demonstrate a thorough knowledge and understanding of the subject of Sustainable Development and the role of ESG risk factors as crucial for sustainable financial systems. Hence the book should be treated as the valuable source of information that adds up to the future breakthrough.

This book is essential for leading representatives of academia, practitioners, executives, officials, graduate students in economics, PhDs and anyone interested in the future of global finance.

REFERENCES


Notes:

1 It is important to note that the environmental risk factor will be increasing due to the progressing global warming and related climate change.

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