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Article

Finance Meets Sustainability: A New Hope?: Editorial

Vierteljahrshefte zur Wirtschaftsforschung

Provided in Cooperation with:

German Institute for Economic Research (DIW Berlin)

Suggested Citation: Schrooten, Mechthild; Varmaz, Armin; Schäfer, Dorothea (2021) : Finance Meets Sustainability: A New Hope?: Editorial, Vierteljahrshefte zur Wirtschaftsforschung, ISSN 1861-1559, Duncker & Humblot, Berlin, Vol. 90, Iss. 4, pp. 5-6, <https://doi.org/10.3790/vjh.90.4.5>

This Version is available at:

<https://hdl.handle.net/10419/270632>

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Editorial: Finance Meets Sustainability: A New Hope?

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Sustainability has climbed up the international agenda of governments and businesses over the past decade. The United Nations Sustainable Development Goals (SDGs), for example, cover 17 areas that address critical global issues such as hunger, extreme poverty, disease, social inequality and climate change and the SDGs should be achieved by 2030. Achieving the SDGs will require large public and private sector investments. Estimates of the level of investment required range from \$1.7 trillion to \$8 trillion per year, which equals 2% to 9% of global GDP per year.

Financial intermediaries, investors, professionals and stakeholders are involved in several ways to deliver on SDGs:

- as investors providing capital for sustainable investments,
- as developers of financial products focused on sustainable developments, and
- as stakeholders being exposed to sustainable risks.

Sustainable development includes both opportunities (e.g., distributing new sustainable financial products) and risks (e.g., a borrower needing to decontaminate its soil) for the financial sector. In the U.S., risks to banks increased through a series of lawsuits in the 1980s. The range of sustainability-focused activities is also evolving. For example, more so-called sustainable mutual funds are being offered to customers and carbon risks are being incorporated into financial assessments. Should the financial sector use its specific instruments to deliver on the SDGs? Does the financial sector need to base the investment and loan decision on sustainability ratios? To escape the traditional financial valuation, a shift in the current economic and social paradigm is needed.

The current issue of the *DIW Vierteljahrshefte zur Wirtschaftsforschung* directs attention to these questions. The issue includes selected papers from the conference “Sustainable Finance and Digitalization” jointly organized by DIW Berlin and the research cluster “Dynamics, tensions and Xtreme events” of the Hochschule Bremen.

The importance of the financial sector for achieving a sustainable development is significant. The financial sector transforms money into place, term, size and risk. Its influence is quantitative and qualitative, since the financial sector can determine which projects are funded, thus also affecting

the nature of financed projects. The financial sector can create funds that are specifically designed for investment in environmentally friendly ways, such as green funds. Applying a premium differentiation in line with the investment's degree of sustainability would be a further step in this direction. Accordingly, a specific investment or credit would then need to satisfy return or risk-management requirements that are in line with the financial institute's sustainability goals. The contributions in the current issue of the Vierteljahrshefte revolve around these topics. Specifically, the authors discuss the sustainability impact of divestment decisions, the measurement of real estate sustainability, the question of sustainable financial literacy, and green public procurement's impact on firm finance.

The first paper, "Sustainable Finance – Divestment as a Tool to Reach the SDGs?", by **Mechthild Schrooten** presents a critical review of the literature on sustainable divestment. Divestment is often seen as a popular strategy by investors to sanction harmful industries or socially not desired outcomes of economic activities. Schrooten shows that based on seminal theoretical work by Heinkel et al. (Heinkel, Kraus, & Zechner, 2001), divestment has limitations to deliver on SDGs. The current theory suggests that "voice" (engagement in the company) is superior to "exit" (divestment) in order to achieve the SDGs.

Janina Bösche highlights the importance of the real estate in achieving the SDGs in her paper "A Concept for Measuring Real Estate Sustainability from the Investors' Perspective". The real estate contributes 29% to the EU greenhouse emission and it consumes 40% of the EU energy. She proposes a concept for developing a real estate sustainability metric and presents specific sustainability indicators for the real estate sector. The aim is twofold: to add the non-financial indicators to the real estate evaluation and to assess sustainability risks from the perspective of investors.

The paper "Sustainable Financial Literacy and Preferences for Sustainable Investments among Young Adults", by **Armin Varmaz**, **Katharina Riebe** and **Sabrina Hegner**, sheds new light on the question of which preferences young adults have for sustainable investments. Their findings suggest that the environment focus is more important for the choice of sustainable investment than social or governance aspects. Latent behavioral characteristics (conscientiousness, importance of the impact of direct investments on sustainability, risk aversion, financial literacy) are also important to explain the young adults' choice of sustainable funds.

The final paper of this issue is on "Firms in Green Public Procurement: Financial Strength Indicators' Impact on Contract Awards and Its Repercussion on Financial Strength" by **Christopher Baum**, **Arash Kordestani**, **Dorothea Schäfer**, and **Andreas Stephan**. It examines whether the financial strength of companies is causally linked to the award of a public procurement contract, especially in the "green" area. The work is part of the XPRESS project which received funding from the European Union's Horizon 2020 Research and Innovation programme. Their results suggest that a lower equity ratio and a higher short-term debt ratio increase the probability of being successful in a public tender and that the companies can operate after the award with a lower equity ratio than comparable companies without an award, regardless of whether the company was successful in a traditional or a "green" public tender. They conclude from their findings that success in a public procurement contract may certify a firm's future earning strength, thus facilitating better access to external financing.