The Role of Green Bonds in Aiding Sustainable Development

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Abstract

Contemporary organizations are increasingly focusing on gaining a competitive advantage by meeting societal expectations. To achieve this goal, management teams have adopted various sustainable approaches. Sound financial management has been particularly hailed as vital in promoting sustainability. This paper reviews the existing scholarly literature to ascertain the role of financial management, especially the issuance of green bonds, in facilitating sustainable business practices and development. The outcomes from the review reveal that green bonds allow entities to manage their finances responsibly. Notably, this concept ensures the effective management of financial resources for sustainable business practices and development. However, organizations need to address the associated challenges to enhance green bonds' potential to foster sustainable business practices and development.

Keywords: Green bonds, sustainability, competitive advantage, financial management

1. Introduction

Modern organizations have growingly embraced societal expectations as part of their strategic approaches to gaining a competitive advantage. This approach has given rise to the concept of corporate sustainability. Notably, many firms have growingly adopted the idea of financial management to achieve sustainability. As noted by Al Breiki and Nobanee (2019), most companies appraise the actual or anticipated progress within a specified period. Thus, financial management acts as a guideline that contributes to an organization's bottom line. The increasing focus on financial management among companies is attributed to its ability to offer a competitive edge over rivals (Al Ahbabi & Nobanee, 2019). The current global economy is characterized by a high degree of dynamism and complexity; hence, corporations that incorporate sustainability into their business management operations are likely to become more competitive and successful (Alkaabi & Nobanee, 2019). Therefore, striking a balance between financial and environmental performance is pivotal to organizational performance.

To achieve sustainable financial management, organizations utilize various approaches. In recent years, companies have adopted green bonds to attain sustainable financial management. The utilization of green bonds as a tool of financial management is widely documented. For instance, the global green bond market grew from $11.042 billion in 2013 to $36.596 billion in 2014 (Zhou & Cui, 2019). This growth depicts a notable shift towards sustainable financial management. The upward trajectory was reflected in the first quarter of 2019, when the global issuance of green bonds hit a historical record of $47.593 billion (Zhou & Cui, 2019). Given this growing popularity, scholars have investigated the correlation between green bonds and sustainable business practice and development. A critical analysis of the extant literature is vital in developing a deeper understanding of the role of green bonds in promoting sustainable business practices and growth.

The issuance of green bonds enables managers to utilize financial resources in supporting initiatives that promote sustainable business practices and the overall development of a business entity.

2. Literature Review

Management and financial scholars have undertaken multiple studies to comprehend the role of green bonds in promoting sustainability. The available literature provides valuable insights into this correlation. Thus, an in-depth understanding of other scholars' conceptualization and critical analysis of green bonds is vital to ascertain their role in fostering sustainability. This section critically reviews the existing literature to comprehend the impact of green bonds in promoting sustainable business practices and growth.

2.1 The Concepts of Sustainability and Green Bonds: An Overview

The idea of sustainability has attracted significant attention among organizations in the contemporary world because of the growing need to conserve the environment and build a solid corporate image. According to Ntsama, Yan, Nasiri, and Mboungam (2021), "sustainable finance refers to financial practices that take into account extra-financial reporting including social, environmental, societal and governance information on corporate activity" (p. 3). Therefore, sustainable finance entails factoring in various aspects when managing an organization's funds. The issuance of green bonds has become one of the most popular and creative strategies for promoting sustainable practices. Ntsama et al. (2019) define a green bond as "a debt security issued by a government entity, a multilateral institution, or a corporation to raise capital from investors for a project that contributes to a low-carbon, climate-resilient economy" (p. 3). This conceptualization depicts green bonds as fixed-income instruments aimed at funding projects with positive ecological outcomes. Hence, the ultimate objective for issuing green bonds is to fund projects intended to promote environmental conservation while enhancing organizational productivity.

2.2 The Green Bond Market

Green bonds are a relatively new phenomenon in business management; hence, most of the existing literature on this concept comprises articles published within the last five years. Zerbib (2019) investigated the existence of a negative premium on bonds, which is specific to green bond issuance. The findings revealed that lower yields could be observed for green bonds, particularly for investment grade credit-rated ones. These outcomes underscore green bonds' prospective financial implications for investors and issuers. Like traditional bonds, green bonds can result in lower yields. Similarly, Baker et al. (2018) posit that green bonds have been issued at premium rates similar to conventional bonds'. Overall, these findings imply that the issuance of green bonds can yield diminishing returns for investors and issuers.

The green bond market has grown rapidly in various parts of the world. Currently, East Asia and the Pacific comprise the largest green bond market, followed by Latin America and the Caribbean. This growth is underscored by the massive market share in terms of volume. In 2018, East Asia and the Pacific's green market volume was estimated at $11.3 billion, while Latin America and the Caribbean's stood at $ 14.1 billion (Tu, Sarker, & Rasoulinezhad, 2020). The green bonds market's steady growth across the world can be attributed to the large number of organizations seeking to mitigate climate change through sustainable projects. The volume of green bonds issued in 2018 was approximately $143 billion from $1 billion in 2008 (Flammer, 2019). This trend suggests that the issuance of green bonds is likely to increase significantly as more businesses focus on sustainability to avert the consequences of climate change.

2.3 The Role of Green Bonds in Aiding Sustainable Development

The issuance of green bonds has been shown to promote environmental conservation. The green bond market contributes to climate change mitigation by funding projects intended to foster sustainable practices (Morana & Sbrana, 2019). Thus, companies issue green bonds to contribute to environmental outcomes positively. As posited by Ng (2018), contemporary organizations utilize the green bond market in financial initiatives to reduce carbon emissions and promote sustainable development. Collectively, these observations accentuate the importance of green bonds in aiding sustainable development.

Green bonds seek to bridge the climate finance gap. Notably, incorporating green bonds allows business establishments to acquire the finances required to fund sustainable projects. Organizations achieve this objective by financing projects that seek to foster sustainable practices (Voica, Panait, & Radulescu, 2015). Therefore, green bonds are positively correlated with sustainable growth. Empirical evidence confirms that the issuance of green bonds improves an entity's environmental footprint (Flammer, 2019). Despite this potential, green bonds face critical challenges. Some of the most significant barriers include higher transaction costs and the inadequacy of appropriate corporate policies (Banga, 2018). These hurdles undermine green bonds' potential to promote sustainable development.

3. Discussion

The reviewed literature sheds significant light on the growth of green bonds in financial management practices among organizations. Rapid globalization has amplified the problem of climate change and the associated adverse consequences. Climate change has adversely affected financial management systems. Organizations that value sustainability engage in activities that promote the preservation of the planet (Morana & Sbrana, 2019). The adoption of sustainable business practices allows firms to contribute to the global efforts of averting climate change. The capacity to enhance efficient financial management is one of the principal factors contributing to the increased recognition of green bonds. Many organizations have embraced this concept as part of their grand scheme to alleviate climate change. Several governmental organizations and private multinational agencies have continued to issue green bonds to fund sustainability projects (Morana & Sbrana, 2019). This significant shift underlines the growing recognition of the need to support individuals and groups working on projects aimed at conserving the environment. Many public entities are increasingly collaborating with private establishments to issue green bonds to support projects founded on sustainable objectives (Ng, 2018). Therefore, the issuance of green bonds avails the financial resources necessary to fund sustainable projects.

The growing popularity of green bonds is attributed to their potential to augment sustainability in development and business transactions. According to Flammer (2019), this type of bond can enhance project sustainability; thus, their issuance is critical in averting climate change. Additionally, green bonds provide financial support to initiatives aimed at conserving the environment. Without adequate funding, such projects may not become a reality (Al Mheiri & Nobanee, 2020). Therefore, the issuance of green bonds bridges this gap by offering financial support to individuals and factions intending to execute sustainable projects. By supporting these initiatives, green bonds contribute positively to environmental conservation. Overall, green bonds can promote sustainable development in various parts of the world if business establishments diversify and expand their issuance to cover multiple projects.

However, the feasibility of green bonds largely depends on a firm’s ability to address the associated challenges. The most common barrier is the associated high transaction overheads involved in processing green bonds (Banga, 2018). These expenses can discourage some organizations from pursuing the issuance of green bonds to avoid potential financial losses. At the same time, many organizations lack the required corporate arrangements (Banga, 2018). Without the relevant structures, organizations are likely to experience challenges in expanding the issuance of green bonds. Additionally, green bonds require special skills to monitor and evaluate their utilization throughout a project's lifecycle. However, most developing countries have a shortage of personnel with such technical skills to ensure that projects are implemented in strict compliance with the guiding green bond principles. Overall, green bonds' overall potential to aid sustainable development can be improved further by addressing these impediments.

4. Conclusion

Today's organizations have increasingly gained a competitive edge by meeting societal expectations. Environmental conservation has become a critical concern in the contemporary global society. In response, many corporations have embraced sustainable business practices. Financial management has become one of the principal strategies for promoting the concept of sustainability. A growing number of firms have adopted green bonds as part of their financial management initiatives. In the past five years, many organizations have increasingly issued green bonds to support projects designed to augment sustainable development. Companies use green bonds to support the development of sustainable business projects; hence, their issuance provides entities with an opportunity to manage their finances responsibly. Notably, this concept facilitates the effective management of financial resources for sustainable business practices and development. Thus, green bonds have a significant potential to advance sustainability. This prospect notwithstanding, the efficacy of green bonds largely depends on the extent to which firms can efficiently address the associated challenges.

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