
BOOK REVIEW



Mark Kritzman, Senior Editor

THE FINANCIAL ECOSYSTEM — THE ROLE OF FINANCE IN ACHIEVING SUSTAINABILITY

*Satyajit Bose, Guo Dong and
Anne Simpson
(Reviewed by
Hui (Stacie) Wang)*

Achieving sustainability is one of the biggest issues faced by mankind; yet it has been left out of the modern finance theories. The book “The Financial Ecosystem” shows how the financial sector and the sustainability of the environmental and social systems are inextricably linked. The authors provide a comprehensive overview of sustainable finance theories as well as descriptions of practical applications demonstrating the co-dependency between finance and sustainability in a clear and cohesive way — the financial system plays a

vital role in achieving sustainability, while environmental and social issues impact the returns and risks for financial assets. I highly recommend this book and think it would appeal to a broad audience including asset owners, asset managers, investment consultants, academic researchers, government and NGO officials, or any finance professionals or students.

The authors lay out the definition of sustainability using the analogy of stock and flow at the beginning of the book (terminologies familiar to finance professionals) and describe the goal of sustainability as maintaining or increasing the current flows of goods and services without impairing the stock of assets from financial, natural, and human capital that generate future flows. Interestingly, as the authors point out, our measurement system focuses more

on flows such as GDP statistics, and inadequately measures the stock of wealth especially from natural and human capital even though they are a significant portion of the wealth of an economy. This is largely due to the formidable process of assessing future flows coupled with the uncertainty regarding the discount rate of natural, human, and intangible capital. In subsequent chapters, the authors provide theoretical frameworks and potential solutions for sustainability valuation in a clear and constructive fashion.

An important message delivered throughout this book is that corporations are indispensable partners and driving forces in any effort to achieve the sustainability goals of the global ecosystem because the scale and power of corporate activities surpass the resources of most governments. The authors contemplate the purpose of

corporations, the evolution of corporate governance cultures in order to meet the needs of different stakeholders, the current corporate disclosure practices, as well as the limitations of the existing financial accounting system for human and natural capital in the book in a coherent way. Readers who wish to sort through myriad ESG frameworks, standards and regulations will also find this book very convenient as it covers the histories and latest developments of these frameworks and regulations with website links, case studies, and practical applications.

As an ESG researcher, I appreciate the systematic and comprehensive approach that this

book takes, touching on all topics from historical overview, to extensive academic findings, to case studies and practical implementations, as well as to limitations and future directions. I find the literature review of the relationship between corporate sustainability performance and financial performance especially useful. I commend the authors' rigorous examination of the link between sustainability and the improvement of financial performance through cost efficiency, revenue generation, and other intangible factors. Moreover, the discussions of the six financing areas — sustainable investing, impact investing, decentralized finance, conservation finance, clean tech finance and social

enterprise, have broadened my understanding of ESG investing. For example, the authors go over various investment instruments for impact investing, many of which are on the frontier of financial innovation, including those in fixed income, real asset, private equity, and decentralized finance systems such as Blockchain, etc.

In summary, this illuminating book provides a much-needed roadmap to sustainability finance as we make the vital transition towards a sustainable and low carbon economy. Whether you are looking for reasons, methods, tools, ideas, or directions to make that change, you can find the answers in this book.