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Mykola Mykolaichuk
Odesa Polytechnic National University

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Mechanisms of state regulation of the sphere of financial services to ensure sustainable development of Ukraine in the context of national security: Public administration aspects

Nadiia Datsii[1*], Mykola Mykolaichuk[2], Andriy Herman[3], Natalia Horbova[4], Fedir Terkhanov[5], Mykola Herman[6]

[1]Department of Economic Theory, Intellectual Property and Public Administration Polissia National University, Zhytomyr, Ukraine; datsii@ukr.net (N.D.)
[2]Department of Public Administration and Regionalism, Odesa Polytechnic National University, Odesa, Ukraine; mykolaichuk@ukr.net (M.M.)
[3]Department of National Security, Public Administration and Management Zhytomyr Polytechnic State University, Zhytomyr, Ukraine; herman@ukr.net (A.H.)
[4]Department of Management and Public Administration, Dmytro Motornyi Tavria State Agrotechnological University, Zaporizhzhia. Ukraine; horbova@ukr.net (N.H.)
[5]Department of Public Administration and Local Government, Dnipro University of Technology, Dnipro, Ukraine; terkhanov@ukr.net (F.T.)
[6]Department of National Security, Public Management and Administration Zhytomyr Polytechnic State University, Zhytomyr, Ukraine; herman@ukr.net (M.H.).

Abstract: The article makes an attempt of conceptual comprehension of state of the art in the field of public administration mechanisms for the regulation of financial services sphere in the context of sustainable development as an important element of national security. The case of Ukraine is taken as a reference point, considered in comparative plane on the background of cases of the U.S., EU, and ASEAN. The core drawbacks, lags, and challenges in Ukrainian financial regulation sphere are outlined, and the areas of potential improvement are suggested.

Keywords: *Financial monitoring, Fintech, National security, Public administration, Regulation of financial services, Sustainable development, Sustainable economic development, Sustainable finance.*

1. Introduction

Consideration of the interrelations and interdependencies between various aspects of national security allows finding measures to prevent or overcome threats to the national interests of the country. The dependence of all aspects of the country's national security on its financial security is obvious today. The financial system is one of the main targets of cyberattacks both in the context of geopolitical confrontations and military conflicts, including hybrid ones. In Ukraine, illustrative examples are attacks by Russian special services on a number of leading Ukrainian banks. At the same time, the problems of terrorist financing and money laundering also pose serious challenges to the national financial system of any country, including Ukraine. Domestic macroeconomic conditions can also become a destabilizing factor in the financial services system. All this determines the need for well-thought-out, balanced, and well-established regulatory mechanisms in the financial services sector.

Furthermore, the financial industry plays a complex and dynamic role in advancing the sustainability agenda. Even if there are still difficulties, great progress is being done. The financial industry has the potential to be a potent force for good by raising money, influencing business practices, and creating a stable financial system (Kovaliv et al., 2023). Adopting sustainability is not only the right

* Correspondence: datsii@ukr.net

thing to do as we negotiate the challenges of the twenty-first century, but it is also a prudent commercial move. The financial industry holds the key to a future where everyone can live in justice, equity, and resilience.

By allocating capital to clean technology, social impact projects, renewable energy, green infrastructure, and green infrastructure, the financial sector may actively support sustainable projects and enterprises (Litvinova et al., 2020). Creating cutting-edge financial products like impact investment funds, sustainability-linked loans, and green bonds is necessary to achieve this.

In the context of the UN Sustainable Development Goals, sustainable development is one of the most important components of national security (Zilinska et al., 2022). The fundamental way that the sustainability viewpoint addresses security-related concerns is by integrating the social, economic, and environmental domains into a dynamic, long-term framework.

The systematic integration of the environmental, social, and economic domains into a long-term, dynamic viewpoint is the fundamental contribution of the sustainability approach to security challenges (Yermachenko et al., 2023). National, regional, and global societal security and well-being are only possible when the biophysical, economic, and social domains all function within reasonable bounds. When boundaries in one sphere are seriously and persistently broken, it is likely to cause problems for the functional stability of the other two realms. Thus, it is illogical to think about the environment and how it affects security in a vacuum, divorced from the other two spheres of human endeavor (Avedyan et al., 2023). The globe is dealing with a number of issues, including unchecked migration, rising energy and food costs, significant income disparity, climate change, and the social marginalization of a sizeable portion of the world's population. Extreme political alternatives and national political crises may result from these processes, which might then have an impact on global political discourse, stability, and peace. National security and environmental strategies are formulated within this framework (Matutinovic, 2015).

The notion of national security has taken on new meanings that now include a range of non-military factors due to shifting security dynamics and the rise of multifaceted threats. Many aspects of human growth and well-being in the modern period are connected to a wider vocabulary of security (Gavkalova et al., 2022). National security in the modern era involves concerns like economic security, food security, health security, personal security, common security, political security, and environmental security, according to the United Nations Development Program (UNDP), Human Development Report (1994). Among these, environmental security is one of the most crucial since it addresses not only the physical safety of people from hostile acts of violence but also the ecosystem itself, which is essential to the future of the human race (Hough, 2021). Any society's level of security is intimately correlated with its ability to solve environmental issues and, more importantly, with environmental security. It permeates every aspect of contemporary life, including the service sector, industry, economics, and agriculture (Graham and Yilmaz, 2023).

Thus, sustainable finances, sustainable financial services and their proper regulation to significant extent determine the landscape of national security. For Ukraine in the conditions of current war, with derived threats for human capital, environment, and public administration institutes, this problematic is especially important and needs thorough investigation and comprehension.

2. Literature Review

The assertion made by EY's experts (Lofts, 2023) that sustainability in financial services is now essential to the effort to tackle climate change, fulfill the Sustainable Development Goals of the United Nations, and build more equitable societies is accurate. In addition to being an economic opportunity, satisfying this need is the banking industry's moral obligation. However, many financial services companies are asking themselves, "How do we maximize that opportunity?". Here, the potential of providing a response is defined by the appropriate and effective control of public administration institutes.

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All actions taken by financial service providers to lessen their negative effects on the environment and climate, to encourage social responsibility, and to support sustainable corporate governance are collectively referred to as sustainable finance. The cornerstone of sustainable finance is represented by the Paris Agreement and the EU Action Plan that it inspired, which set out specific sustainability targets for the financial industry. Sustainable finance will guarantee that money goes toward more environmentally friendly projects, that environmental risks are given more weight, and that openness is promoted. The financial services industry will help the economy as a whole change and steer toward sustainability in this way.

MiFiD II, which will significantly alter disclosure requirements, as well as new laws and policies like EU standards for non-financial reporting, EU Taxonomy, and green financial product labeling, will all help achieve this (PwC, 2024a).

The European Central Bank (ECB) has published a guide on climate-related and environmental risks, which outlines the expectations of the ECB for banks for the integration of climate and environmental risks into their risk appetite, culture, framework for monitoring risks, and loan portfolio management. Additionally, it outlines what the banks are obligated to disclose on ESG issues, namely GHG emissions under Scope 1, 2, and 3 (Zukas, 2024). For financial institutions that are directly supervised by the ECB, this handbook is required; for other institutions, it is optional.

I Financial services are said to be able to raise money in order to achieve net zero. Organizations that provide financial services (FSOs) are essential to this process. Many are establishing more challenging goals to cut their own emissions, reach net zero "financed emissions", assist current clients in making the transition, and provide funding for innovative climate solutions (Zukas, 2024).

However, FSOs are unable to raise sufficient funds on their own. Despite all of its potential, the sector lacks the size, the international networks, and the democratic legitimacy to assume leadership roles (Gaievska et al., 2023). The industry must fundamentally alter the way it connects all capital providers and users if it is to take the lead in raising the necessary funds to complete the transition to net zero.

FSOs need to collaborate with other players to increase the market for transition capital. If the world doesn't change along with them, then neither enterprises nor FSOs will be able to satisfy their net-zero obligations. Particularly well-positioned to generate demand for transition capital at the grassroots level throughout society are public bodies. To promote the alignment of all stakeholders, FSOs need to interact with them (Zukas, 2024).

It should be noted that traditionally financial security is considered as one of the components of economic security, and therefore financial security, as well as economic security, reflects the qualitative characteristics of the economic and financial system of the state (Dainoff et al., 2023). At the same time, financial security lies in the ability of government (public administration) bodies to ensure the safe functioning of all spheres of social and economic activity where finances circulate by political, legal, and economic methods and means (Kalyayev et al., 2019). Ensuring financial security also means risk management in the financial sector, timely provision of financial resources to all financial institutions, as well as the unhindered implementation of national and state interests in the financial sector (Slawotsky, 2020).

Experts rightly argue that this area is one of the important and most dynamic areas of the economy, depending on many external and internal factors, such as: the impact of the geofinance factor on national finances, global economic convergence caused by globalization, the ability of national legislation to regulate the activities of financial institutions and exercise full-scale financial control, as well as many others (Straeten, 2018). It is quite obvious that national regulation of the financial services sector in a globalized and digitalized economy is essentially an open system that is continuously influenced by the external environment and, in turn, has some influence on this environment.

3. Methods

The theoretical basis of the study was formed by fundamental works of researchers, and reports of international consulting companies in the field of sustainable development and national security, national financial security and cybersecurity and fintech, as well as responsible investment, leadership in the field of responsible, "green" and social financing.

In order to maximize the disclosure and in-depth analysis of the theoretical, informational, and empirical foundations of this study, the following methods were used: methods of deduction and induction, systems approach and synthesis, methods of comparative and statistical analysis, methods of comparative studies, aggregation, abstraction, analogy and formalization.

4. Results

A revolutionary change in the way financial services support a more sustainable, fair, and environmentally friendly future is represented by sustainable finance (Kondur et al. 2024). Sustainable finance incorporates social and environmental factors into financial decision-making, in contrast to traditional finance, which frequently ignores these effects. This strategy places a strong emphasis on the necessity of fostering economic expansion while lowering environmental stressors, resolving social injustices, and guaranteeing long-term sustainability (Kryshtanovych et al., 2022). Sustainable finance is a practical solution to the global issues of resource depletion, social injustice, and climate change, not only a moral decision.

The need for this adjustment is growing as the impacts of climate change become more apparent and the public calls for action becomes stronger. When it comes to allocating funds to enterprises and initiatives that benefit the environment and society, sustainable financing is essential (Mishchuk et al., 2020). Achieving objectives like biodiversity preservation, carbon neutrality, and inclusive economic growth all depend on this strategy.

By redistributing investments from sectors of the economy that have detrimental effects on the environment and society, the financial sector may make a strong statement and encourage businesses to embrace more environmentally friendly practices (Ortina et al., 2023). These covers avoiding fossil fuels, actions that worsen the environment, and businesses with subpar labor practices.

It is becoming more and more important to incorporate Environmental, Social, and Governance (ESG) considerations while making investment decisions (Nekhai et al., 2024). This entails evaluating the possibilities and hazards related to sustainability concerns and applying them to guide investment decisions. Investors may support long-term financial stability and a beneficial social effect by adopting ESG principles.

Currently, a company's choice to use sustainable finance is entirely elective in the US. Businesses may and often do weigh the financial and reputational advantages of conducting a sustainable financing transaction when determining whether to join or remain in the market.

To combat greenwashing in the investing business, promote openness, and standardize the approach to ESG standards, the US Securities and Exchange Commission (SEC) has confirmed three proposed guidelines. Participants in the market need to get ready for the impending changes as the SEC steps up its scrutiny of ESG issues.

The SEC has put out three particular guidelines in response to the surge in sustainable investment (Popovych et al., 2023). These rules aim to improve the accuracy and openness of disclosures made by non-financial organizations and funds. The ultimate goal is to guarantee that investors are adequately protected from greenwashing while also enhancing transparency. The following are the regulations that will update the current framework (Slot, 2022):

- Regulations for Public Companies to Disclose Information Related to Climate Change
- ESG Disclosure Guidelines for Investment Firms and Advisors: A Proposal
- A rule to address misleading investment company names is being proposed.

For public corporations that are SEC-registered, the first rule is applicable. Investment funds and advisors are subject to the second and third rules.

Before being put into effect, these proposed regulations might undergo revisions or face legal challenges because they have not yet been approved (Skovronska et al., 2023). However, they will impose new regulations on the sector, therefore it's critical that players in the market start getting ready for their introduction.

The Sustainable Finance Disclosure Regulation (SFDR) in the European Union establishes disclosure requirements for advisers, products, and players in the financial sector. The regulation's goals are to reduce greenwashing and provide final investors a clear picture of sustainability initiatives. Asset managers require reliable and accurate data in order to fulfill the SFDR.

Two types of stakeholders are often impacted by the SFDR (see Figure 1).

Figure 1.
Stakeholders affected by SFDR, in EU (Zukas, 2024).

For financial advisers and FMPs, implementing the SFDR will require significant time and financial investments since new processes and systems must be developed to guarantee compliance (Zayats et al., 2024). Financial market participants confront a significant obstacle in achieving EU Taxonomy and SFDR standards because to a widespread paucity of data pertinent to reporting requirements and the unavailability of the technologies needed to analyze, convert, and manage data (Zukas, 2024).

The EU Taxonomy, the upcoming Corporate Sustainability Reporting Directive (CSRD), and the International Sustainability Standards Board (ISSB) are just a few examples of sustainable finance reporting standards and frameworks that are gaining traction and offering banks a special chance to show their dedication to sustainability while also enjoying a number of advantages (Zharovska et al., 2023). Banks may strengthen risk management, boost financial performance, and boost transparency by putting these reporting requirements into practice. It is crucial to remember that implementing these has its own set of difficulties, such as managing and collecting data, complying with regulations, and incurring extra expenses.

In order to realize the advantages of sustainable finance reporting requirements, banks can successfully handle these issues by developing new procedures and systems for data collection, compliance, and reporting in addition to appropriate, specialized governance on the subject (Vinichuk et al., 2023). Banks should take early steps to address these implementation problems so they may concentrate on realizing the potential advantages, since they will be required to comply with these reporting obligations.

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Overall, by gathering a wealth of detailed and consistent extra-financial data from their clients, banks can effectively manage the shift to sustainability reporting and establish themselves as leaders in the global drive towards Net Zero. The following are the primary things to think about (Busch et al., 2024):

- What does sustainable finance entail for financial institutions?
- Banks' obstacles in the realm of sustainable financing
- Gathering and organizing data
- Compliance issues
- Implementation of reporting
- Banks' opportunities in sustainable financing
- Enhanced long-term financial performance and risk management
- Creation of cutting-edge goods and services
- Increased accountability and transparency
- Differentiation and competitive advantage
- Enhanced capital accessibility
- Conformity to the United Nations Sustainable Development Goals
- Advantages of sustainable financial reporting guidelines when using state-of-the-art solutions from greenomy.

Figure 2 illustrates the record amount of new sustainable finance policy measures and regulations approved in a chosen economy in 2023.

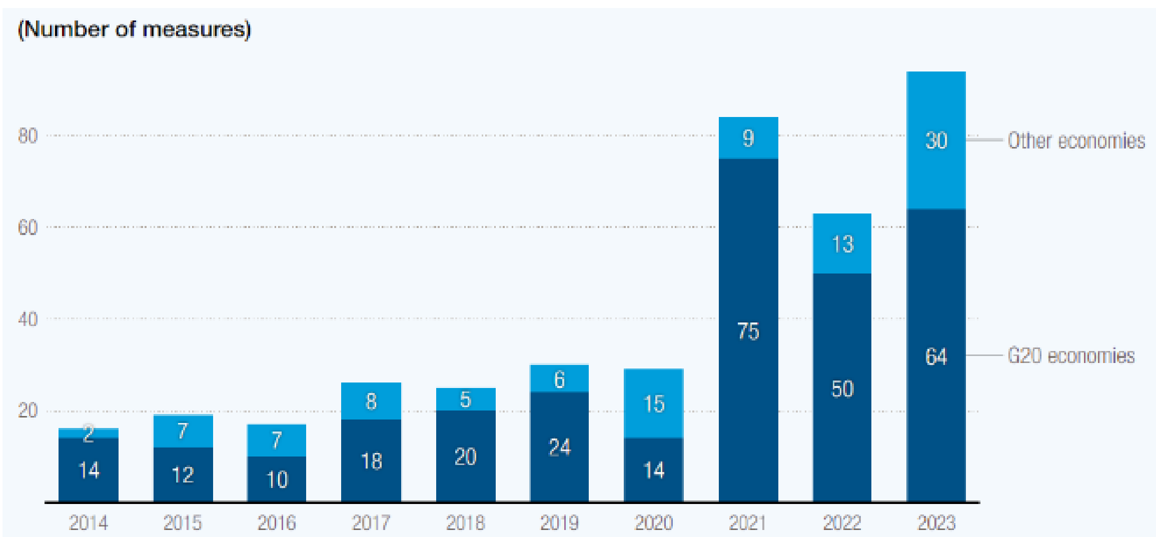

Figure 2.
Record level of new sustainable finance policy measures and regulations adopted in selected economies, in 2023 (UN Trade and Development, 2023).

A chart of country frameworks and strategies for climate transition and sustainable finance was created by UNCTAD in 2023. The chart, which has 102 lines and lists measures implemented between 2015 and 2023, does not include Ukraine, indicating that the nation does not yet have any regulations or policies pertaining to sustainable finance.

5. Discussion

Over the past ten or so years, digital finance and fintech have grown rapidly globally and in Ukraine in particular, promoting sustainable growth and financial inclusion. This has significance for the advancement of the Sustainable Development objectives (SDGs), since financial inclusion has been recognized as a crucial facilitator for seven out of the seventeen objectives (Ozilli, 2022). Fintech is expected to continue growing in Ukraine due in part to the nation's easy transition to digitization in general and digital payment systems in particular (Vorobei et al., 2021). The nation profited from "leapfrogging technology" by utilizing internet- and mobile-based solutions, and both consumers and companies are now highly acclimated to doing business online.

In 2021, the Verkhovna Rada of Ukraine adopted the Law of Ukraine "On Financial Services and Financial Companies", which established clear requirements for the operation of financial companies and is expected to become a fundamental basis for the financial services market (Tsymbaliuk et al., 2023). Of course, the Law contains both expected changes dictated by modern trends in the financial services market, and those related to the possibility of creating and implementing innovations in the financial services market (Zalyubovskii et al., 2024). Speaking about the innovations of the Law, it should be noted that services will now be divided into financial and accompanying ones, where the latter include intermediary (services aimed at obtaining a financial service by the client, related to information, consulting, support, etc.) and auxiliary services (related to financial services and/or to the implementation of activities to provide financial services that are not related to intermediary services) A financial institution will be considered a legal entity, the purpose of which is to carry out activities to provide financial services, which, in accordance with the law, provides one or more financial services on the basis of the relevant license issued by the regulator.

In turn, a financial company is a financial institution that, on the basis of the relevant license, will have the right to carry out activities to provide one or more of the following types of financial services: 1) provision of funds and banking metals on credit; 2) provision of guarantees; 3) factoring; 4) financial leasing; 5) trading in foreign exchange; 6) financial payment services for the transfer of funds without opening an account and/or acquiring payment instruments.

The new Law of Ukraine "On Payment Services" marks a new chapter in the financial business environment of Ukraine and its regulation (Ostapenko et al., 2023). The Law describes, establishes the framework for the functioning and regulation of modern financial technologies, including electronic money, payment networks and central bank digital currency (CBDC) in Ukraine (Panasiuk et al., 2020). The new law ensures increased security and efficiency in the provision of financial services by bringing it into line with similar laws of the European Union. Ukrainian legislators have brought this law into line with the second Payment Services Directive (Directive (EU) 2015/2366), also known as PSD2, which regulates payment services in the EU, and the Electronic Money Directive (Directive 2000/46/EC), known as EMD, regulating electronic payment systems in the EU.

According to the new law, the main regulatory function in the payment services sector is assigned to the National Bank of Ukraine, which will issue licenses for their activities to market participants (Kussainov et al., 2023). The new law expands the range of payment service providers, clearly defines their types of activities and permitted transactions. It is assumed that the new legislation will create a safer, more reliable and modern legal environment for companies operating in the financial technology sector in Ukraine, which will improve the quality of the national regime for fintech, providing better opportunities for business, as well as opening up more opportunities for modern innovative technologies in the financial sector for Ukrainian clients (Khomiuk et al., 2020). However, legislative practice and especially economic practice still lag behind the results of other developing countries, and sustainable financial services are not included in the scope of legislative regulation at all - for example, the launch of the "green bonds" market is only planned for now.

Specifically, within the same context, fintech and major IT companies have increased their loan availability substantially throughout Asia in recent years (Gupta et al., 2021). The development of fintech in Asia has also been aided by the region's low levels of financial inclusion, with fewer than 50%

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of adults in several nations, especially in Southeast Asia, possessing traditional bank accounts (Demiguc-Kunt et al., 2021). Low penetration rates also apply to financial services like wealth management and insurance, which has made room for fintech expansion. Asia's digitalization rate accelerated due to the COVID-19 epidemic, especially in the fintech sector (Beime et al., 2022). By providing quicker and less expensive financial services than traditional banking, this helped the region's micro, small, and medium-sized businesses stay financially viable (Gaman et al., 2022). It also gave consumers in the area more effective and shock-resistant access to financial services. In Asia, there is a robust feedback loop where innovation is driven by the use of fintech and vice versa. Furthermore, there is increasing rivalry in Asia's virtual banking market (Pradipta et al., 2023).

In these circumstances, public administration bodies in Asian countries also take into account potential risks to sustained growth resulting from advancements in digital finance, especially when it comes to security concerns and managing potential risks to financial stability as the regulation of fintech grows in importance as a policy area (Ehrentraud et al., 2019). Regarding the latter, some nations in Asia and other parts of the world have established "regulatory sandboxes" to facilitate digital innovation in the financial sector while also keeping an eye on and controlling the rise of dangers to financial stability.

Even though Ukraine has a lower degree of financial inclusion than many other nations on the continent (see Figure 3), this hasn't prevented non-included demographic groups from adopting fintech. In terms of demographic traits, Ukraine's financial conduct has a mixed overall score. The age categories of 30-59 years old and more than 60 years old in 2021 show a statistically significant difference (Info Sapiens, 2021).

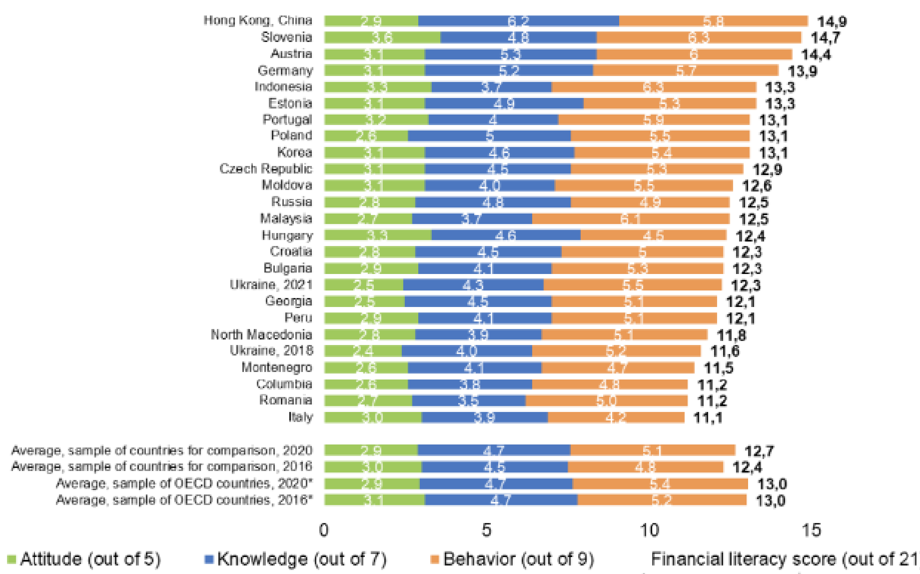

Figure 3.
Financial literacy score: Ukraine in comparison with other countries (Info Sapients, 2021).

If to look at analysis and opinions provided by Ukrainian authors, the situation seems to be even more negative. In particular, Ukrainian scholars Shapoval et al. (2021, p. 64) write the following: "The improved access dimension is partly due to the fact that in spring of 2018, the National Bank of Ukraine issued a license to the national postal operator to transfer funds in the national currency without opening an account (Byrkovych et al., 2023). That enabled Ukrposhta to serve customers using payment cards. Ukroposhta is an essential channel of financial access as its network covers 100% of inhabited localities in Ukraine. It involves more than 11,000 postal facilities, which is almost 40% more than all banks' branches' coverage (Ukrposhta, 2021). The national postal operator can embrace financially excluded groups of the population. As of March 2021, Ukrposhta services 3.5 million retirees living in villages and cities where there is no bank branch or ATM. There are more than 27,000 such localities in Ukraine, wherein about 13 million people live". This state enterprise is characterized exclusively by catch-up development and a constant lag in updating services (Arivazhagan et al., 2023). But, according to Ukrainian experts, raising population coverage by its financial services is an indicator of national success in financial sphere (Gupta et al., 2024). In opposite, in Asia, as it was mentioned above, inclusion of the population in financial services landscape is taking place predominantly through fintech, and regulation policy here plays important encouraging role.

Sustainable finance services are also paid much attention in Asia. In ASEAN countries, there is already sound array of sustainable finance regulation, in particular ASEAN Green Bond Standards, ASEAN Taxonomy for Sustainable Finance, Green Bond Regulations in Indonesia, Sustainable Bond Regulations in Thailand, etc.

Li and Liu (2023) looked at how people' income structure and level were affected by digital financial inclusion. In China, there was a favorable correlation observed between household, company, and property-based income. The utilization of digital loans, digital payments, and digital financing choices are the main components of this channel (Cherniaiev et al., 2024). It has also been demonstrated that digital financial inclusion increases job levels by encouraging company start-ups.

Fintech's ability to promote financial inclusion is contingent upon several intersecting elements. The disparity in financial and digital literacy between nations is one of the major obstacles (Bazaluk et al., 2023). Fintech may not be able to aid economies and communities if these sectors are not sufficiently competent in them. There are notable regional variations in the adoption and spread of digital financial services in Asia due to the considerable variety in digital financial literacy levels across the region (Isaieva et al., 2020). Thus, it is imperative to address deficiencies in digital and financial literacy. The influence of fintech on financial inclusion is further hindered by the underdeveloped state of broadband penetration, internet connection, and digital payment infrastructure (Qu et al., 2017). Certain regions of Southeast Asia have economies that are much less developed than others in this regard within the Asian continent (Deyneha et al., 2016). Lastly, an issue that is strongly tied to worries about consumer protection and data privacy is a lack of confidence in digital banking.

Capital markets and banking are changing as a result of sustainability. Stakeholder involvement, heightened regulatory scrutiny, and quick innovation are all driving forces behind the need for fundamental reform and a redefining of the social license (Klymenko et al., 2016). In addition to acting as a safeguard against upcoming disruptions, businesses in the banking and capital markets industry must act quickly to seize, magnify, and capitalize on available possibilities (PwC, 2024b).

Global experience demonstrates that the expansion of people' financial prospects and the general soundness of the financial system depend on financial inclusion, financial literacy, and the defense of customers' rights in financial services (Panasiuk et al., 2021). Therefore, it is crucial to comprehend individuals' levels of financial inclusion and financial literacy indicators when formulating state policy. It is also vital to incorporate suitable stimulating measures into state regulating mechanisms pertaining to the financial services industry (Shamne et al., 2019). In addition to direct influence on SDGs achievement (in the plane of inclusion), this evidently will have direct and indirect effect on many SDGs goals (in reducing levels of poverty, improvement of education level, etc.) (Saik et al., 2023). Moreover, one of the significant positive effects will be related to national security aspects not only within the plane of sustainable development, but also in cybersecurity space, making more difficult for various attackers to apply social engineering and fishing methods with the aim to harm national system of financial services in Ukraine.

6. Conclusions

Sustainable finance, while full of potential, is beset by a number of misunderstandings and obstacles. A prevalent misperception is that investments that are sustainable provide smaller returns. However, a growing body of research indicates that including ESG considerations can result in equivalent or even superior financial success. The absence of standardized ESG criteria presents another difficulty, since it can be challenging for investors to evaluate and contrast the sustainability performance of various assets.

Moreover, there's a common misconception that sustainable financing is solely important to certain types of investors. As more investors and financial institutions realize the value of sustainable finance and include ESG considerations into their investment strategies, the practice is really gaining traction. Aggressive and creative regulatory mechanisms should be responsible for a large portion of the effort of eradicating these biases. Today, it is especially important for Ukraine, as well-managed sustainable financial services have the power to positively influence national financial services regulations in general, as well as those pertaining to national security.

Putting sustainable financial concepts into reality requires overcoming a number of challenges. The requirement for more uniformity and openness in ESG reporting is one of the primary obstacles. As a result, investors would be able to assess the sustainability performance of various assets with accuracy and make better educated judgments.

Educating and raising the understanding of investors and financial professionals about the value and advantages of sustainable financing is another difficulty. The integration of ESG problems into investing strategies remains mostly unknown to many investors.

Furthermore, a long-term outlook is necessary for sustainable finance, which may conflict with the short-term orientation that permeates many areas of the financial sector. It is imperative to change this way of thinking if sustainable finance methods are to be widely adopted.

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