

CONSERVING ENVIRONMENT-A RESPONSIBILITY OF INVESTOR

Dr. Janki Aggarwal

Associate Professor, P.G Department of Commerce, B.A.M Khalsa College Garhshankar

Contact No: 9417449564, E-Mail ID: jankirabia@gmail.com

ABSTRACT

Often conflated with socially responsible investing (SRI) green investments are essentially investment activities that focus on companies or projects that are committed to the conservation of natural resources, the production and discovery of alternative energy sources, the implementation of clean air and water projects, and/or other environmentally conscious business practices. Green investments may fit under the umbrella of SRI, but is fundamentally much more specific. Investors' attention to climate change, resource efficiency and green in general, has been rising in recent years and investor initiatives in this respect are growing in support. There are traditionally different approaches applied by investors. There are a number of different ways that an ethical or green investment strategy can be developed. Screening is a common tool used across the market and can be approached from either a positive or negative stance. A negative screening approach is where specific companies are excluded from the investment strategy because of their involvement in particular areas. Positive screening involves an opposite approach in that companies are specifically included because of their social responsibility record and making positive contributions to society and the environment. Government must accelerate the phasing-out of fossil-fuel subsidies, enact long-term carbon price signals, enable greater free trade in green technologies, and expand investment in climate adaptation. Investment-grade public policy is an important prerequisite to engage the private sector.

INTRODUCTION

Many of us have investments such as in an ISA or a pension. Yet most of us don't know where that money is actually being invested. Ethical consumers consider and make careful decisions about the source and production of the products they buy; why should it be any different when considering the impact of our savings and investments? How is your money being used? Where

is it being invested? Could it be supporting unethical activities that you disagree with, such as ones that are detrimental to people's quality of life, wider society or the environment?

Even if you have a relatively small amount of money to invest, green and ethical investment options allow you to make a positive difference with your money, as it is invested in companies delivering on social and environmental performance, or innovative work in the field of sustainability.

Often conflated with socially responsible investing (SRI) green investments are essentially investment activities that focus on companies or projects that are committed to the conservation of natural resources, the production and discovery of alternative energy sources, the implementation of clean air and water projects, and/or other environmentally conscious business practices. Green investments may fit under the umbrella of SRI, but is fundamentally much more specific. Investor's attention to climate change, resource efficiency and green in general, has been rising in recent years and investor initiatives in this respect are growing in support. There are traditionally different approaches applied by investors. Some investors use a form of ESG(environmental, social and governance investing) or green overlay in the general investment process while others allocate a certain percentage of assets to a specific green product or manager. Green investment policies in use vary across asset classes. Sustainable investing has advanced most in equities. An analysis of equity indices reveals a great variety of green methodologies applied across the market place. Different approaches to selecting green investments have evolved over the years, in particular(negative or positive) screening, green thematic investing and engagement with companies.

Figure 1
Types of approaches to green investment

Thematic approach of Green Investment	Green Investment Screening	Green Investment Screening Engagement
<ul style="list-style-type: none"> ● Clean energy ● Water management ● Waste water management ● Clean Technology 	<ul style="list-style-type: none"> ● Positive screening (the best in class approach) ● Negative screening (excluding the unsustainable company) 	<ul style="list-style-type: none"> ● Long term relationship with the companies ● Establishing a dialogue on environmental and sustainability issues ● Change the company’s practices in favour of the environment

Green investment are traditional investment vehicles (such as stocks, exchange-traded funds and mutual funds) in which the underlying business(es) are somehow involved in operations aimed at improving the environment. This can range from companies that are developing alternative energy technology to companies that have the best environmental practices. Green investing can also be achieved through exchange-traded funds (ETFs), which mimic the stock indexes made up of green companies. Mutual funds can be another alternative, in which case a professional portfolio manager makes the green asset allocation decisions based on the fund’s prospectus.

The OECD report (as of December 2015) Green Investment Banks: Scaling up Private Investment in Low-carbon, Climate -resilient Infrastructure, sums up the key messages that Investment is growing in renewable energy and energy efficiency, but not quickly enough to get the world on track to achieve zero net greenhouse gas emissions globally by the end of this century. Mobilizing investment from the private sector will be essential to meet climate change goals. Governments can find ways to make efficient use of available public funding to mobilize much larger pools of private capital .To mobilize private investment in domestic low-carbon, climate-resilient (LCR) infrastructure and leverage the impact of available public resources, 13 national and sub-national governments have created public green investment banks (GIBs) and GIB-like entities (as of December 2015). A GIB is a public entity established specifically to facilitate private investment into domestic low-carbon, climate-resilient (LCR) infrastructure. Using innovative transaction structures, risk-reduction and transaction-enabling techniques, and local and market expertise, GIBs are channeling private investment, including from institutional

investors, into low carbon projects. GIBs are facilitating investment in such areas as commercial and residential energy efficiency retrofits, rooftop solar photovoltaic systems and municipal-level, energy-efficient street lighting.

CORPORATE GREEN INVESTMENT PRACTICES

- Barari et al. (2012) completed a study on a large textile company involved with garment production in Western India and illustrate that the firm promoted green manufacturing initiatives in different stages of garment production.
- Leonidou et al. (2013) evaluated 152 hotels in Greece and discovered that these hotels adopt an environmental marketing policy which is significant in these hotels and gained competitive advantages.
- Tsai (2012) assessed a Taiwanese electronic industry and spotlights that this industry undertakes green research and development in schemes which relate to the development of new green products.
- Iatridis (2013) evaluated 529 Malaysian firms listed on Bursa Malaysia and highlights that the firms integrate a Sustainability Balanced Scorecard to effectively ascertain the company's environmental and economic performance. They possess environmental certification such as ISO 14001 and they implemented both voluntary and mandatory environmental reporting.
- Wilson Bayly Holmes-Ovcon Ltd (2012) highlights that the company had incorporated "Carbon Management" procedures which permitted the firm to adapt, measure and report its carbon emissions in addition to ascertaining prospects and risks connected with climate change.
- The Vodacom Group (2010) outlines that the company had integrated green innovation approaches of handling business through doing away with conventional practices by applying "carbon-intensive" mechanism such as video conferencing and machine to machine buying and selling to mitigate climate change.

GREEN INVESTMENT STRATEGIES

There are a number of different ways that an ethical or green investment strategy can be developed and the levels of stringency with which each is adopted can also vary significantly between organizations.

Screening is a common tool used across the market and can be approached from either a positive or negative stance. A negative screening approach is where specific companies are excluded

from the investment strategy because of their involvement in particular areas. Positive screening involves an opposite approach in that companies are specifically included because of their social responsibility record and making positive contributions to society and the environment.

Examples of positive and negative screening criteria are shown below:

Positive	Negative
Environmental protection	Armaments and nuclear weapons
Conservation and recycling	Animal exploitation
Ethical employment practices	Environmentally damaging practices
	Gambling

A preference or best-of-sector approach to the development of a green investment strategy can also be adopted. This permits the investment in companies operating in a particular sector (ie oil and gas) but restricts it only to those that are considered best in sector in that they have a better environmental record for example than the others.

Another approach is activism. This is where investors in companies use their influence to make a positive change to the behavior of the company. This approach does not necessarily exclude companies from the investment strategy but instead the organization encourages the company to adopt social and environmental best practices through engagement with senior management or voting at annual general meetings.

SPECIFICALLY THE INVESTOR SHOULD EXCLUDE

- Companies that are involved in unsustainable products and services such as the world’s most hazardous substances, nuclear energy, unconventional oil and gas and weapons.
- Companies that are frequently and significantly involved in controversial activities and do not take steps to change such behavior, such as violation of human rights, environmental damage and corruption.
- Companies that operate in sectors with an increased sustainability risk, that do not have adequate policies in place to mitigate these. Examples can be businesses involved in mining or oil and gas extraction, but also the manufacture of food or household products.

GREEN BONDS-A GREENER WAY OF FINANCING

A bond is a debt instrument with which an entity raises money from investors. The bond issuer gets capital while the investors receive fixed income in the form of interest. When the bond matures, the money is repaid.

A green bond is very similar. The only difference is that the issuer of a green bond publicly states that capital is being raised to fund 'green' projects, which typically include those relating to renewable energy, emission reductions and so on. There is no standard definition of green bonds as of now.

Indian firms like Indian Renewable Energy Development Agency Ltd and Greenko have in the past issued bonds that have been used for financing renewable energy, however, without the tag of green bonds. Green bonds are issued by multilateral agencies such as the World Bank, corporations, government agencies and municipalities.

In March, the Exim Bank of India issued a five-year \$500 million green bond, which is India's first dollar-denominated green bond. The issue was subscribed nearly 3.2 times. The bank has said it would use the net proceeds to fund eligible green projects in countries including Bangladesh and Sri Lanka. Earlier, in February, Yes Bank raised Rs 1,000 crore via a 10-year bond, which was oversubscribed twice.

GREENCO RATINGS OF ITC LIMITED

ITC Limited

'Carbon Positive' – 6 years in a row

Sequestering/ storing twice the amount of CO2 ITC emits

'Water Positive' – 9 years in a row

Creating two times more Rainwater Harvesting than ITC's net consumption

'Solid Waste Recycling Positive'

Reusing/Recycling more solid waste than generated

All Environment, Health and Safety Management

Systems in ITC conform to international standards

WHY SHOULD AN INVESTOR GET EXCITED WITH LOWER INTEREST?

Because, it inherently carries lower risk than other bonds. According to a KPMG report, in case of a green bond, "proceeds are raised for specific green projects, but repayment is tied to the

issuer, not the success of the projects.” This means the risk of the project not performing stays with the issuer rather than investor.

According to the New Climate Economy, the global economy will require about US\$90 trillion in infrastructure investments by 2030. Despite the urgent need to build this infrastructure, investment needs are not being met. Funding for infrastructure globally is around US\$5 trillion each year: only 7-13% of those projects are estimated to be low-carbon and designed to deal with the extra impacts of a changing climate.

DEVELOPING COUNTRIES ARE PLAYING A GROWING ROLE IN SCALING UP GREEN INVESTMENT.

Cross-border and domestic investment originating from non-OECD countries grew 15-fold between 2004 and 2011 at a rate of 47% per year (compared with 27% per year for OECD-originating investment), albeit from a low base. Clean-energy asset financing originating from developing countries in 2012 is on track for the first time to exceed those originating from developed countries. This investment is due in part to the creation of green growth strategies by a number of developing country governments—to advance water resources, sustainable agriculture, and clean energy. Developing country public finance agencies can accelerate this trend by targeting more of their funds to leverage private finance.

REASONS FOR GREEN INVESTMENT

1. Perhaps the most obvious benefit of going green is the environmental impact it has. Although the majority recognize the issues our planet faces, less of us view this as a personal problem. The truth, however, is that it affects each of us. Animal and plant species are facing mass extinction on an unprecedented scale, and the impact of climate change is being felt across the world, from [droughts in California](#) to flooding across the UK. The only way to remedy these issues is by addressing them, and the role that each of us, as individuals, plays; why not be at the forefront of the revolution?

2. Environmental responsibility is a global trend that has gained irreversible momentum. According to a recent Harvard Business Review sustainability study, over the next two decades, companies demonstrating a commitment to environmental responsibility will have a superior record in terms of performance, specifically because they will be prepared against regulatory roller coasters and will be able to seamlessly adapt to legislative changes and technical requirements.

3. Eco-investments are everywhere. Ecology and environment are issues that are not limited to the renewable energy sector, rather eco-investments are a part of every sector. Because of this, investors should have greater foresight and broaden their perspective to make smart eco investments in mature industries. According to Brian Salerno of Huntington Funds in an interview with Kapitall, “long-term investors can earn return on capital when investing in identifiable trends.” Solar panels and electric cars, according to Salerno, are immature industries with “unproved business models.” Investors need to step away from a narrow focus and rethink their investment strategy from a longer-term perspective that has broader environmental responsibility as its focal point.

4. Investors can take advantage of the launch of the Huntington Ecological Strategy Shares ETF (HECO), which is an unprecedented exchange traded fund that specifically focuses on environment-related investments. HECO looks at three key points in determining eco-investment strategy: credit worthiness (solvency), management quality (management’s decision-making track record), and valuation (quantitative data demonstrating growth, profit and returns).

5. There are plenty of mature industries for eco-investors that fit into the global trend of environmental responsibility and will reap rewards for investors. Organic foods is one such mature industry with a proven track record. HECO has put much faith in Whole Foods and The Hain Celestial Group, which makes everything from organic foods to organic skin-care products. The logic behind these investments: Children are products of their environment, and the growing numbers being raised on organic products will funnel their own future investments in a like-minded way. In two decades, this will be clear, but it is now that investors need to take advantage of this proven trend.

6. Socially conscious investing is “exploding in the market place,” according to Kapitall, and mutually and actively managed funds have already surpassed \$3 trillion in investments. The new trend is for consumers, shareholders and investors to pressure companies into a certain amount of corporate responsibility—something that was previously the purview of only the environmental activists.

INVESTMENT CAPITAL CAN BE DE-RISKED THROUGH INNOVATIVE MODELS

The private sector will not scale up financing for green investments unless the risks of investing are no more pronounced than those for conventional investments. Case studies have shown that large private-sector investment has been successful in green projects when risks levels were

reduced to acceptable, normal levels. De-risking tools, such as guarantees and insurance against policy, regulatory and macroeconomic risk, are underused and offer significant potential for mobilizing private investment. Work by the Green Growth Action Alliance in Kenya has shown promise in developing technological risk insurance for early-stage investment in geothermal technologies, while in India, partial credit guarantees have the potential to realize up to six times their investment in private-sector funding for solar power development. Innovative approaches have also emerged to promote commercial lending for green projects in developing and new markets, through support from governments and international financial institutions to underwrite loans. This is particularly beneficial in markets where a lack of familiarity with the technology in question and fears of debt default would otherwise make lenders less willing to release funds to scale up investment.

- **Promote Free Trade in Green Goods and Services**

Initiate trade liberalization on sustainable energy products and services to eliminate tariffs, local-content requirements and other non-tariff barriers, and to coordinate industrial and technical standards. Such arrangements will create a tangible, positive incentive within the international trading system to develop and expand the use of green-energy goods and services, helping to accelerate progress on mitigating greenhouse gas emissions while promoting economic growth, access to energy and energy security

- **End and Redirect Inefficient Fossil-Fuel Subsidies**

Develop national transition plans to phase out inefficient fossil fuel subsidies within the next four years and consider redirecting a portion of such subsidies to ensure access to energy for the poorest and to other public priorities, including green infrastructure investments. This will reduce fiscal imbalances, increase real incomes and reduce greenhouse gas emissions and the overall cost of mitigating climate change.

Leadership by governments, international financial institutions and private investors is needed to address the green investment gap. This first Green Investment report of world economic forum includes four recommendations that, if understood and acted on, could address the gap in green investment:

1. Greening investment, and thereby the economy, is the only option: Building from the 2012 G20 Summit, G20 leaders should reaffirm that greening the economy is the only route to sustained growth and development.

2. The transition is financially viable: The incremental costs of greening growth are insignificant compared with the costs of inaction. To accelerate and guide the green growth transformation, governments, investors and international organizations must improve efforts to overcome barriers and improve global tracking, analysis and promotion of green investment.

3. Effective policy pathways and the efficient deployment of public finance to green investment is well understood, tried and tested, and must now be scaled up: The G20 governments must accelerate the phasing-out of fossil-fuel subsidies, enact long-term carbon price signals, enable greater free trade in green technologies, and expand investment in climate adaptation. Investment-grade public policy is an important prerequisite to engage the private sector. Public financial institutions need to more actively engage private investors through scaling up deployment of proven instruments and mechanisms, while also designing new funds and tools to attract private finance for new investment opportunities.

4. Private investors will need to take a new approach to benefit from green investment opportunities: Green infrastructure investment can provide attractive long-term, risk-adjusted returns. Private investors should not wait for perfect public policies to remove any reasonable risk. They can enhance comparative risk analysis of green investment by making greater use of investor forums and engagement with public finance agencies to advance new financing solutions that open up an attractive, sustainable market.

CONCLUSION

Individual beliefs on what constitutes a “green investment” vary, exactly what qualifies as a green investment is a bit of a gray area. Purchasing stock in a business that is an industry leader in terms of employing environmentally conscious businesses practices in a traditionally “non-green” industry may be considered a green investment for some, but not for others. For example, consider an oil company that has the best record for environmental practices. While it is environmentally sound that the company is making the best precautions in preventing any direct damage to the environment through its day-to-day operations of drilling for oil, some people may object to purchasing its stock as a green investment, because burning fossil fuels is the leading contributor of global warming.

Therefore, prospective green investor should research their investment to see if an investment includes the types of companies that fit their personal definition of “green”.

REFERENCES

- <https://www.triodos.co.uk/en/personal/ethical-investments/green-investments/>
- https://businessperspectives.org/journals_free/ee/2015/ee_2015_01_Ganda1.pdf
- http://www3.weforum.org/docs/WEF_GreenInvestment_Report_2013.pdf
- <http://www.toknowpress.net/ISBN/978-961-6914-13-0/papers/ML15-227.pdf>
- <http://www.thehindu.com/business/what-are-green-bonds/article7070840.ece>
- [file:///C:/Users/czone/Downloads/d41d8cd98f00b204e9800998ecf8427e-Green%20Infrastructure%20Investment%20Coalition%20Fact%20Sheet%209th%20Dec%20\(2\).pdf](file:///C:/Users/czone/Downloads/d41d8cd98f00b204e9800998ecf8427e-Green%20Infrastructure%20Investment%20Coalition%20Fact%20Sheet%209th%20Dec%20(2).pdf)